

Results Q3 2007 of Hypo Real Estate Group
Dr. Markus Fell, CFO



“A more balanced Group set-up based on senior lending”

The New Group

Highlights and Outlook

- | The New Group is fully on track to achieve all major goals as laid out in the business plan
- | Group is a beneficiary of a continued positive margin trend in Commercial Real Estate, Public Sector and Infrastructure Finance
- | The recent market crisis did not affect us nearly as much as some others in the market
- | Outlook for **Q4 2007**:
 - | First time consolidation of DEPFA, creating a more balanced and stable senior lender
 - | Additional profit from sale of retail residential business to be booked
 - | Profit before taxes excluding extraordinary effects (e.g. restructuring expenses) of ca. €300 MM expected for the New Group provided that financial markets stay as they are
- | **Full year 2007** and longer term financial targets affirmed, in line with the business plan
 - | 12% ROE for 2007, >15% ROE by 2010
 - | Business model as an on balance sheet lender back in fashion
 - | Excellent funding position a core strength of the Group

- I **Commercial Real Estate:** - Highest level of new business (€9.7 Bn) with attractive returns on new business of 14.5% (IRR) due to improved competitive situation
 - 30% increase in PBT vs. Q3 2006

- I **Public Sector & Infrastructure Finance:** - Trend reversal in new business Public Sector margin to 29 Bp in Q3; first time growth of public sector book since Q4 2006
 - Continued strong new Infrastructure Finance business of €5.1 Bn in Q3 led to a portfolio of €19 Bn per end of September
 - 18% increase in PBT vs. Q3 2006

- I **Capital Markets:** - Disappointing quarter in Capital/Global Markets but action already taken to cut back trading activities significantly as planned
 - Losses covered by extraordinary tax gain in DEPFA



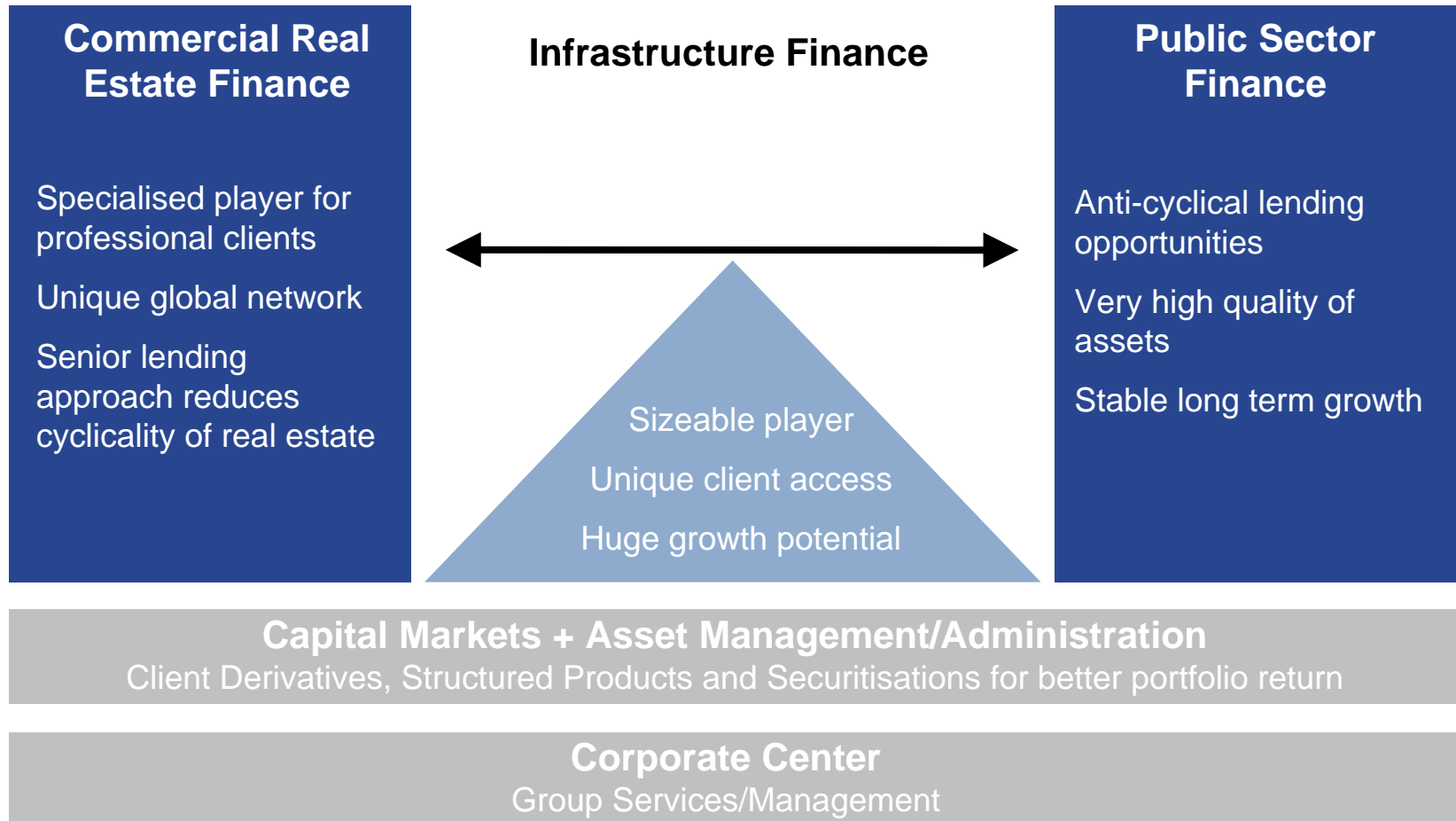
The combined Group has emerged strengthened from the recent market crisis







The strategic business of commercial real estate, public sector and infrastructure finance is fully in line with our expectations

The New Group

Extremely stable and balanced business mix...

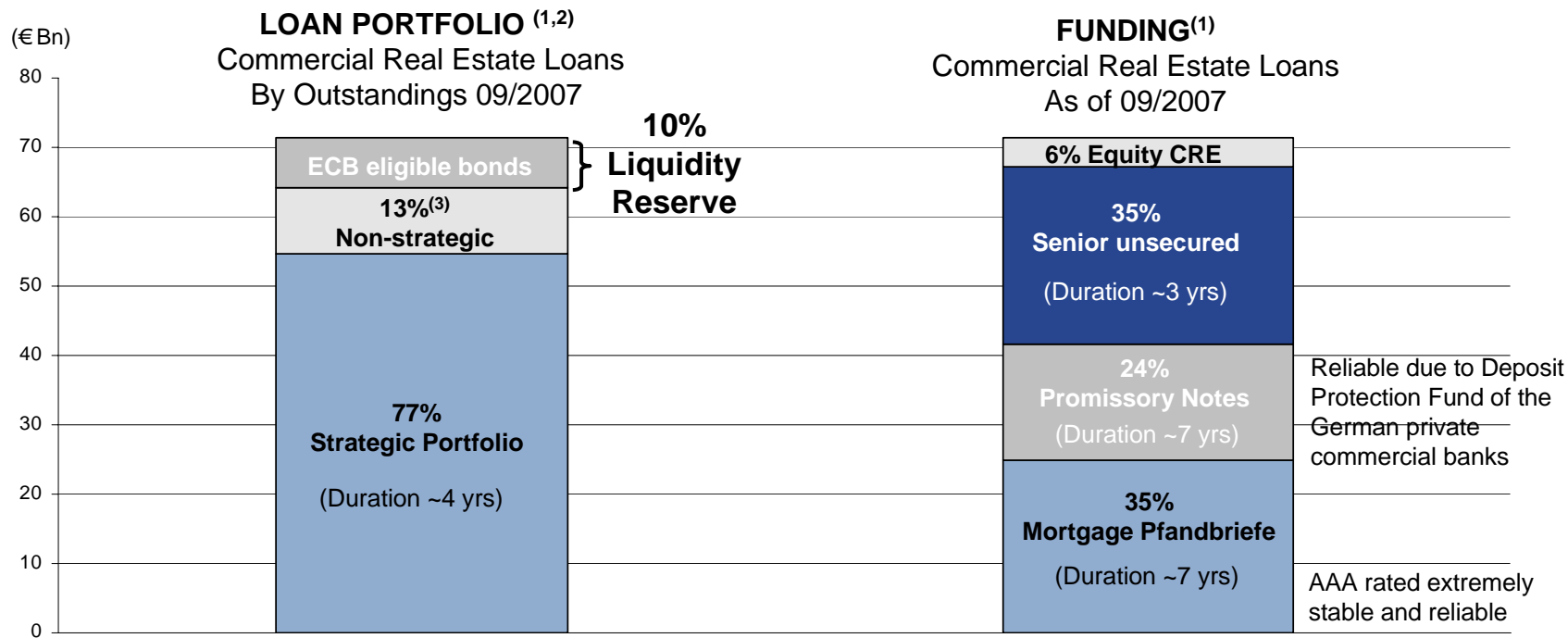


The New Group ...protected against current market issues

Wholesale funding		Real Estate: 95% mid- and long-term matched funded Duration of liabilities effectively longer than of assets Public Sector: on average AA2 rated portfolio of very liquid assets Attractive investment - safe haven in times of stress
Real Estate sector		Cash-flow of properties intact Senior lender not equity investor - with an average LTV of 64% ⁽¹⁾ 72% of New Group assets in public sector and infrastructure finance
Sub-prime/CDO		No lending to retail residential / no direct sub-prime exposure Only € 4 MM impairment in Q3
ABCP/SIV		No liquidity back-ups/guarantees to ABCP/SIVs

Old Hypo Real Estate Group - Liquidity is not a concern

Commercial real estate portfolio matched funded with 10% liquidity reserve

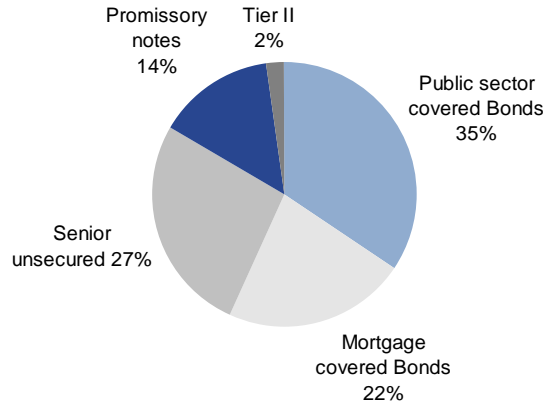


▶ **Significantly longer duration of funding in comparison to assets !**

| 6 | **Notes:**
 1. Internal unaudited figures
 2. Based on outstandings of HG and HI
 3. Including German retail residential portfolio of € 4.2 Bn, which has been sold in August 2007 (effective November)

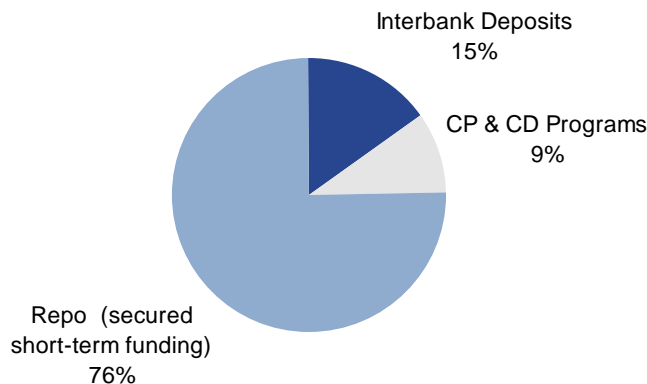
Old Hypo Real Estate Group - wholesale funding is not a concern Repo, Pfandbrief and Promissory Notes are not a margin issue

Long-term Funding



100% = € 108.0 Bn

Short-term Funding



100% = € 30.1 Bn

- | Pfandbrief spreads remained stable
- | Promissory Notes protected by the Deposit Protection Fund of the German private commercial banks and therefore secured
- | Ongoing senior unsecured funding activities between August 1st to October 30th resulted in € 3.7 Bn of private placements despite market stress
- | Rating improvement to A-1 enlarged investor base for short-term funding significantly
- | More than 75% of short term funding is secured by bonds

Old DEPFA Group - wholesale funding is not a concern
 DEPFA funding proved very robust during the liquidity crisis due to the high quality of assets and the direct access to institutional investors

	YE 2006			30/06/2007			30/09/07		
	€ Bn	%	Cum %	€ Bn	%	Cum %	€ Bn	%	Cum %
AAA Long Term Covered Debt	95	46	46	93	45	45	93	44	44
Long Term Senior Unsecured Debt	15	7	53	16	8	52	14	7	51
Repo Finance	43	21	75	42	20	73	50	23	74
Unsecured Money Markets	52	25	100	57	27	100	56	26	100
Total	205			208			213		

44% of funding made up of Pfandbrief/ACS issuance which enjoys a high level of investor acceptance in all market conditions; in private placements DEPFA achieves an even lower funding cost level than public issues

23% of funding made up of Repo activity in which lower funding fell markedly during the debt market crisis due to demand for high asset quality (flight to quality)

Unsecured money market funding proved to be very stable as direct relationships to institutional investors (central banks, large pension funds) protects against adverse conditions in CP markets

Free ECB/Repo eligible bonds of 45 Bn provide a strong liquidity buffer

The New Group – real estate market is not a concern

Conservative real estate lending approach

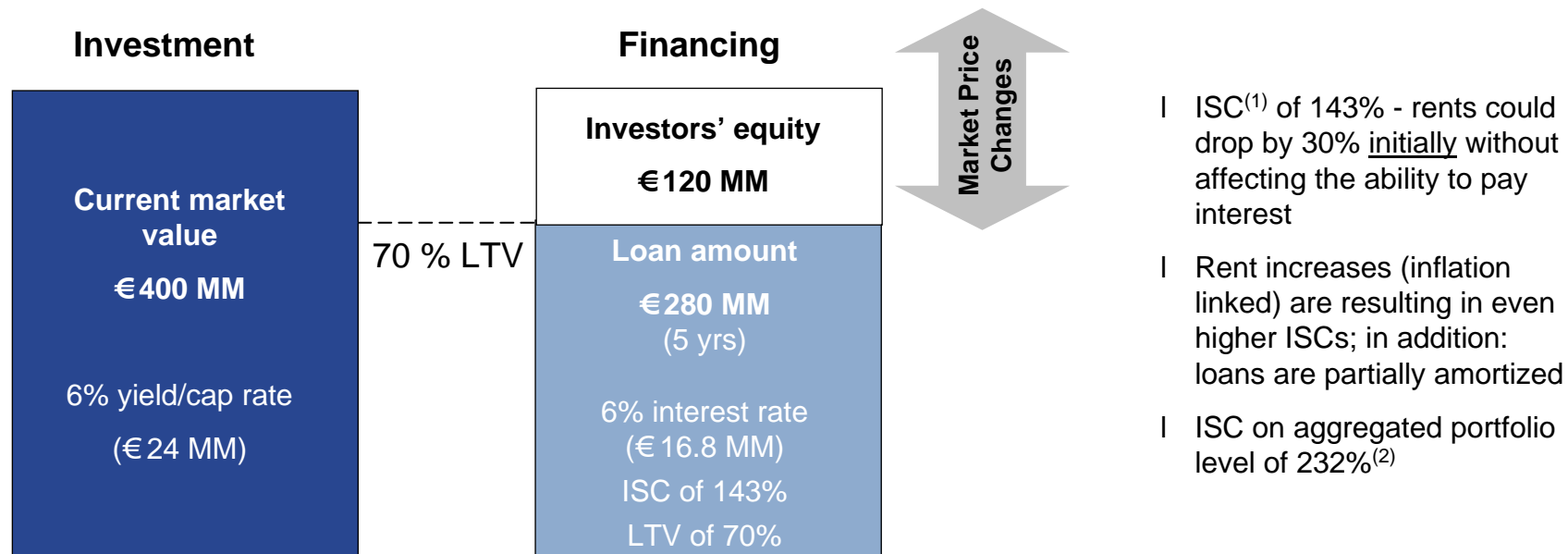
- | No direct lending to retail residential (home owners)
- | US residential real estate finance portfolio has been significantly downscaled (e.g. no new condo conversion loans since mid-2005)
- | De-leveraging of UK exposure since the beginning of 2006 and less new business written in 2007
- | Cautious stance towards the Spanish market since 2002
- | Exposure to Middle-East and to Ireland is below 1%
- | Properties cash-flows show a positive development (rental growth, decent vacancy levels, financially strong tenants)

 **HRX is a senior lender with an excellent risk profile. Focus on income-producing properties (net cash-flow of property covers interest service twice on aggregated portfolio level)**

The New Group – real estate market is not a concern

Senior lending commercial real estate – no direct link to property prices

EXAMPLE:



▶ Rental and property value volatility is affecting the investor and not the lender in a normal downturn

Notes:

1. Interest Service Cover
2. As of 12/2006

The New Group – CDO investments are not a concern

Virtually no P/L impact from CDO investments

Old Hypo Real Estate Group:

- | €300 MM US CDOs, of which more than 90% are AAA rated
- | In addition, a legacy CDO portfolio of €1.2 Bn dating from the time prior to the spin off
 - | Average collateral rating: AA
 - | 16% (ca. €200 MM) sub-prime collateral from asset replacements in collateral pool
 - | Only 5% (ca. €60 MM) sub-prime collateral from 2006 and 2007 vintages
- | Impairment analysis based on single cash-flow per collateral led to €4 MM impairment in Q3
- | No recent rating downgrades on HRX' CDO exposures or collateral

Old DEPFA Group:

- | €400 MM public sector CDOs (sovereign risks only) reduced to €100 MM with no negative P/L effect

The New Group – ABCP Conduits and SIVs are not a concern

No risks resulting from these vehicles

Recent market undertaking in the financial sector to support for ABCP conduits and SIVs:	Impact on HRE
<p>ABCP Conduits</p> <ul style="list-style-type: none"> provision of committed liquidity lines asset migration on balance sheet <p>SIVs</p> <ul style="list-style-type: none"> provision of cash to be used as liquidity reserves purchase CPs issued by the SIV buy capital notes (particularly since some of them are investors already) buy assets at par, rather than at market values	<p>NO</p> <p>NO</p> <p>NO</p> <p>NO</p> <p>NO</p> <p>NO</p>

Old Hypo Real Estate Group - Standalone

Strong positive trend in net interest and commission income

KEY FINANCIALS (IFRS)			
(€MM)	Q3 2007	Q3 2006	Change (%)
Total operating revenues	274	270	+1
Net interest income	226	208	+9
Net commission income	54	33	+64
Net trading income	-15	14	>-100
Net income from investments	8	14	-43
Balance of other operating income/expenses	1	1	0
Provisions for losses on loans and advances	17	36	-53
General administrative expenses	85	86	-1
Balance of other income/expenses ⁽¹⁾	0	0	0
Net income/loss before taxes⁽¹⁾	172	148	+16
Taxes on income ⁽²⁾	37	39	-5
Net income/loss⁽²⁾	135	109	+24

	30.09.07	31.12.06
Cost Income Ratio (%)	30.8	31.0
Risk Weighted Assets (€ Bn)	75.0	66.4
Core Capital Ratio (%)	6.7	7.0
ROE ⁽³⁾ (%)	11.6	9.9

- | Strong positive trend of rising net interest and commission income (+16%), driven by high new business volumes
- | Net trading income suffered from recent market developments
- | Reduction in LLPs due to considerably improved loan portfolio quality
- | General administrative expenses on low level in Q3 2007 due to reduced bonus accruals in capital markets
- | 16% increase in profit before tax
- | 11.6% ROE on target level for full year

| 13 | **Notes:**

1. Excluding the effects from DEPFA acquisition
2. Excluding the effects from capitalised losses carried forward, the effect from revaluation according to corporate tax reform act and the effects of the DEPFA acquisition
3. Excluding the effects from capitalised losses carried forward, the income of capitalised corporate income tax claims, the effect from revaluation according to corporate tax reform act and the effects from DEPFA acquisition

Old DEPFA Group - Standalone

Revenues of client facing business up 15%

KEY FINANCIALS (IFRS)			
(€MM)	Q3 2007	Q3 2006	Change (%)
Total operating revenues	154	187	-18
Net interest income	89	101	-12
Net commission income	7	7	0
Net trading income	-39	9	>-100
Net income from investments	79	70	+13
Balance of other operating income/expenses	18	0	>+100
Provisions for losses on loans and advances	0	0	0
General administrative expenses ⁽¹⁾	74	53	+40
Balance of other income/expenses	0	0	0
Net income/loss before taxes⁽¹⁾	80	134	-40
Taxes on income ⁽¹⁾	-41	24	>-100
Net income/loss⁽¹⁾	121	110	+11

	30.09.07	31.12.06
Cost Income Ratio (%)	48.1	26.1
Risk Weighted Assets (€Bn)	44.7	33.4
Core Capital Ratio (%)	8.2	9.5
ROE (%)	16.6	21.0

- I Net interest income impacted by negative locked in carry due to closing of legacy Global markets positions (NII GM of € -19 MM)
- I However, revenues of client facing business in Public Sector and Infrastructure Finance (excluding Global Markets and Corporate Centre) show a continuous upward trend (€ 209 MM vs. € 181 MM) and are fully in line with the business plan
- I General and administrative expenses up due to additional hirings and due to the first time consolidation of First Albany
- I One-off effect in the amount of € 62 MM resulting from past tax audits regarding DEPFA Deutsche Pfandbriefbank leads to 11% increase in net profit and 16.6% ROE

The New Group

Combined financials – 17% increase in net profit

KEY FINANCIALS (IFRS)			
(€MM)	Q3 2007	Q3 2006	Change (%)
Total operating revenues	428	457	-6
Net interest income	315	309	+2
Net commission income	61	40	+53
Net trading income	-54	23	>-100
Net income from investments	87	84	+4
Balance of other operating income/expenses	19	1	>+100
Provisions for losses on loans and advances	17	36	-53
General administrative expenses ⁽¹⁾	159	139	+14
Balance of other income/expenses ⁽²⁾	0	0	0
Net income/loss before taxes^(1,2)	252	282	-11
Taxes on income ⁽³⁾	-4	63	>-100
Net income/loss⁽³⁾	256	219	+17

- | Net interest income slightly up; positive developments in Commercial Real Estate, Public Sector and Infrastructure Finance overcompensate for the development in Corporate Centre (legacy book)
- | Commission income driven by high levels of new business in commercial real estate lending
- | Trading affected by recent market turmoil as credit spread deterioration causes decreasing market values with direct P/L impact
- | Administrative expenses higher as business expansion overcompensates for reduced bonus accruals
- | Risk provisioning down due to improved portfolio quality; no provisioning need at DEPFA

Notes:

1. Excluding merger related costs
2. Excluding the effects from DEPFA acquisition
3. Excluding the effects from capitalised losses carried forward and the effect from revaluation according to corporate tax reform act and the effects of the DEPFA acquisition

The New Group

Quarterly financial development

(€MM)	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Total operating revenues	457	495	517	539	428
Net interest income	309	315	318	325	315
Net commission income	40	51	48	55	61
Net trading income	23	35	27	36	-54
Net income from investments	84	96	122	121	87
Balance of other operating income/expenses	1	-2	2	2	19
Provisions for losses on loans and advances	36	36	34	30	17
General administrative expenses ⁽¹⁾	139	168	156	167	159
Balance of other income/expenses ⁽²⁾	0	0	0	0	0
Net income/loss before taxes^(1,2)	282	291	327	342	252
Taxes on income ⁽³⁾	63	57	74	79	-4
Net income/loss⁽³⁾	219	234	253	263	256

- | Q-on-Q reduction in net interest income due to the closing of Global Markets positions
- | Highest level of commission income due to strong new business
- | Trading income disappointing due to recent market turmoil
- | Lower net income from investments due to reduced contribution from portfolio management in Public Sector Finance

Notes:

1. Excluding merger related costs
2. Excluding the effects from DEPFA acquisition
3. Excluding the effects from capitalised losses carried forward, the income of capitalised corporate income tax claims, the effect from revaluation according to corporate tax reform act and the effects of the DEPFA acquisition

The New Group - Commercial Real Estate Finance

Combined financials – strong increase in revenues and profit

KEY FINANCIALS (IFRS)	Q3 2007	Q3 2006	Change (%)
(€MM)			
Total operating revenues	254	223	+14
Net interest income	191	177	+8
Net commission income	46	30	+53
Net trading income	-5	0	>-100
Net income from investments	21	14	+50
Balance of other operating income/expenses	1	2	-50
Provisions for losses on loans and advances	7	25	-72
General administrative expenses	48	45	+7
Balance of other income/expenses	0	0	0
Net income/loss before taxes	199	153	+30
Taxes on income ⁽¹⁾	43	38	+8
Net income/loss⁽¹⁾	156	115	+37

- | Net interest and commission income up 14% driven by portfolio growth resulting from strong new business
- | Sharp reduction in LLPs due to improved portfolio quality
- | 7% in administrative expenses due to strong expansion of international business
- | 30% increase in profit before tax
- | Attention: segment excludes non-strategic German portfolio

Note:

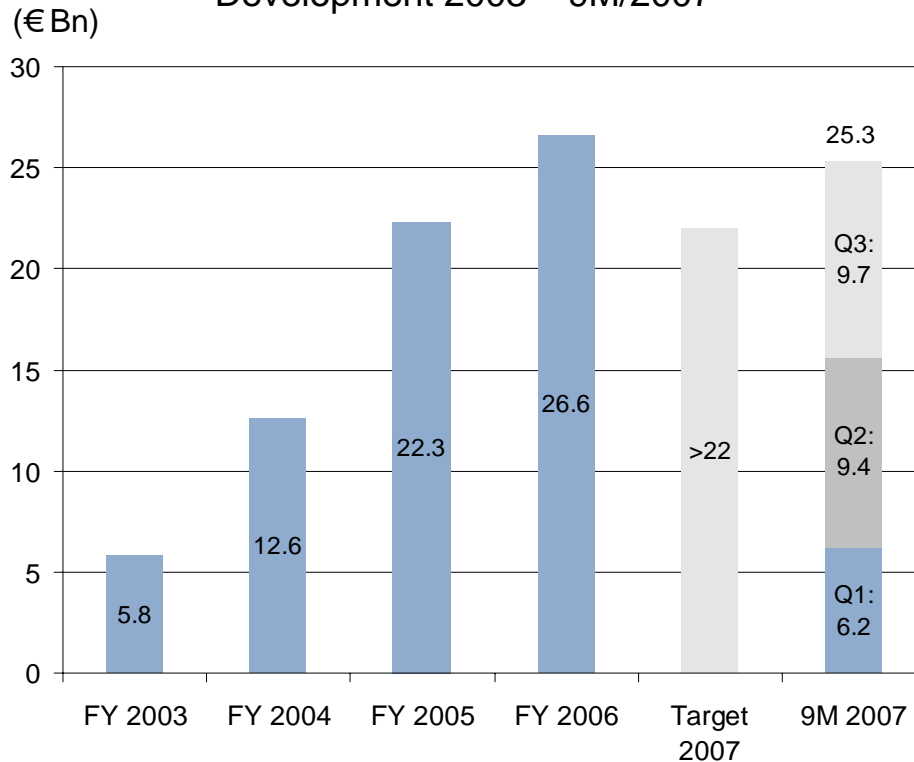
1. Excluding the effects from capitalised losses carried forward, the income of capitalised corporate income tax claims and the effect from revaluation according to corporate tax reform act

The New Group - Commercial Real Estate Finance

New commercial real estate business at record level benefiting from a improved market environment for on-balance lending

NEW REAL ESTATE BUSINESS⁽¹⁾

Development 2003 – 9M/2007



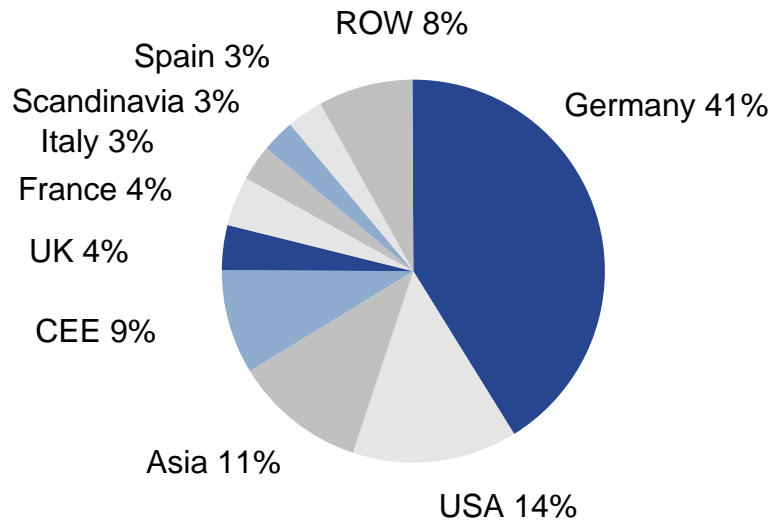
- | New on-balance sheet business amounted to €9.7 Bn in Q3 2007 (+59% vs. Q3 2006: €6.1 Bn)
- | 9M new business volume of €25.3 Bn thus already exceeds the full-year target of at least €22 Bn
- | Strong new business driven by reduced number of active market participants (securitisation platforms, non-specialist banks, etc.)
- | Pre-/Repayments amounted to €5.8 Bn (Q2: 6.0 Bn, Q1: 5.0 Bn)

▶ **Record new commercial real estate business at improved terms (IRR of 14.5%)**

The New Group - Commercial Real Estate Finance

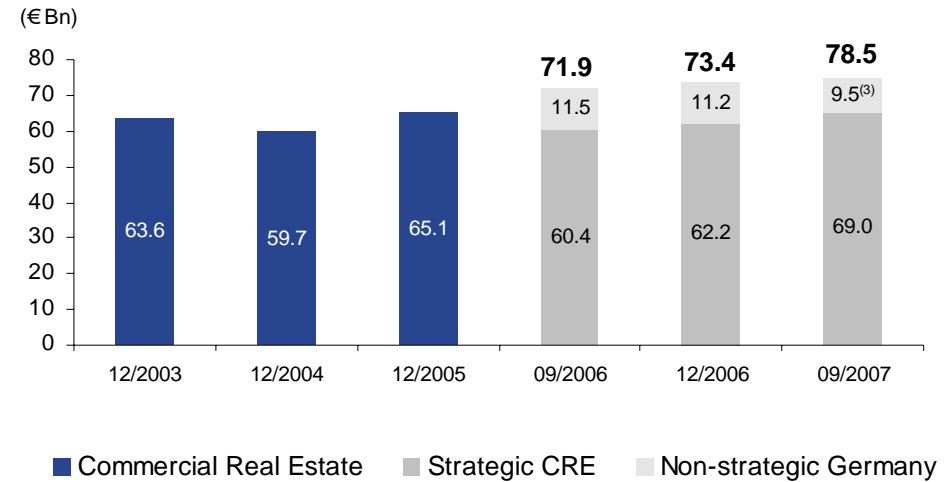
Strong new business in Germany taking advantage of the German market conditions

TOTAL NEW BUSINESS⁽²⁾
Split by Region Q3 2007



100% = €9.7 Bn

LOAN PORTFOLIO DEVELOPMENT⁽²⁾
12/2003 - 09/2007



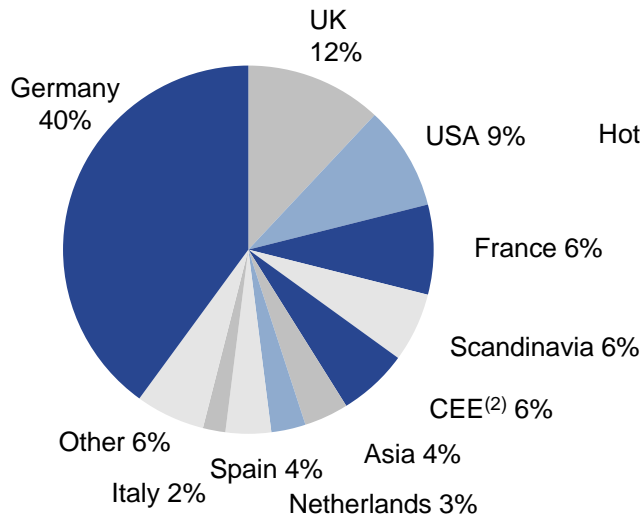
Notes:

1. Based on commitments without syndication and securitisation
2. Internal unaudited figures
3. Including German retail residential portfolio of €4.2 Bn sold to ING Diba in August 2007

The New Group - Commercial Real Estate Finance

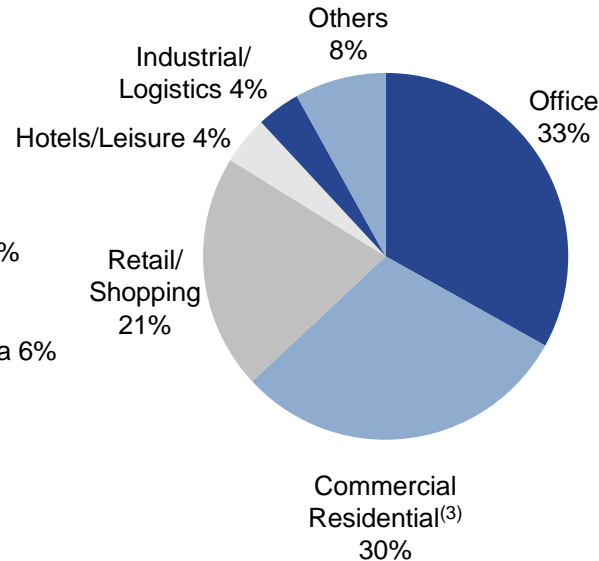
Commercial real estate portfolio breakdown

SPLIT BY REGION
Loan Portfolio 09/2007⁽¹⁾



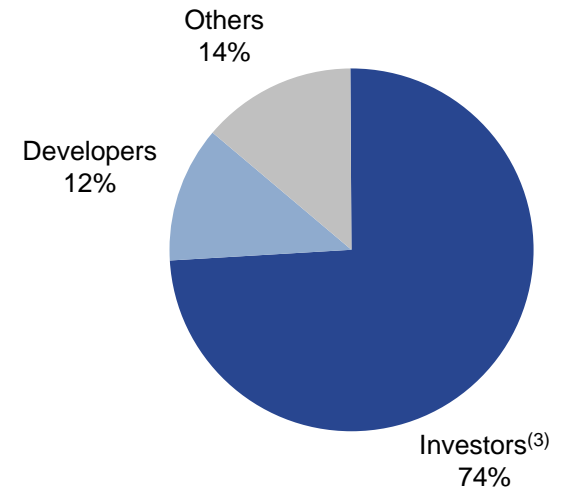
100% = €69.0 Bn

SPLIT BY ASSET CLASSES
Loan Portfolio 09/2007⁽¹⁾



100% = €78.5 Bn⁽⁴⁾

SPLIT BY CUSTOMER TYPE
Loan Portfolio 09/2007⁽¹⁾



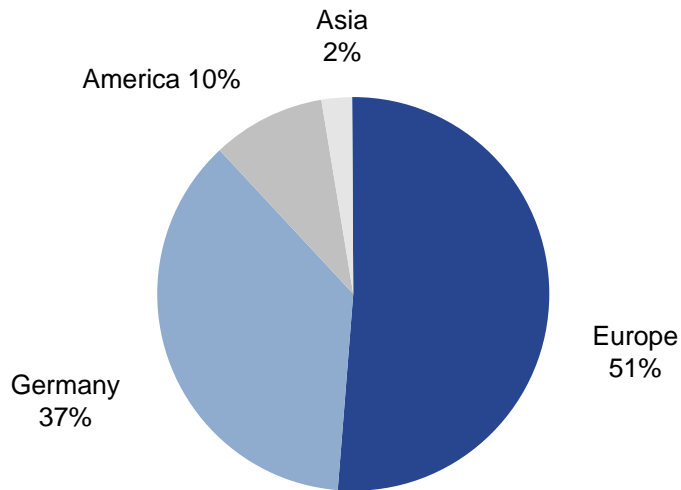
100% = €78.5 Bn⁽⁴⁾

Notes:

1. Real estate based on commitments; internal unaudited figures
2. CEE mainly comprises Hungary, Poland and the Czech Republic
3. Including German retail residential portfolio of €4.2 Bn sold to ING Diba in August 2007
4. Including German non-strategic portfolio of €9.5 Bn

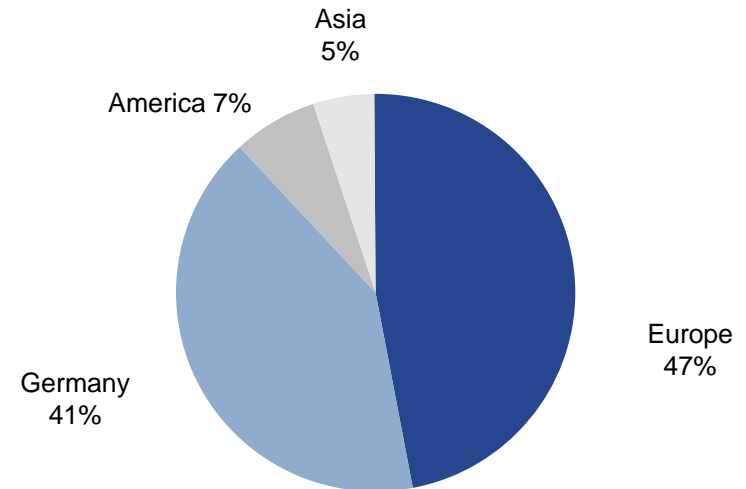
The New Group - Commercial Real Estate Finance Portfolio by sub-segment – the decrease in US has been compensated by Japan

TOTAL REAL ESTATE VOLUME⁽¹⁾
Split by Sub-segment/Platform 09/2006



100% = €60.4 Bn

TOTAL REAL ESTATE VOLUME⁽¹⁾
Split by Sub-segment/Platform 09/2007



100% = €69.0 Bn

+14.2%

The New Group - Public Sector and Infrastructure Finance Combined Financials – improving client business

KEY FINANCIALS (IFRS)	Q3 2007	Q3 2006	Change (%)
(€MM)			
Total operating revenues	207	171	+21
Net interest income	117	98	+19
Net commission income	10	7	+43
Net trading income	-2	5	>-100
Net income from investments	82	61	34
Balance of other operating income/expenses	0	0	0
Provisions for losses on loans and advances	0	1	-100
General administrative expenses	36	25	+44
Balance of other income/expenses	0	0	0
Net income/loss before taxes	171	145	+18
Taxes on income	33	19	>-100
Net income/loss	138	126	+10

- | Interest income up 20% driven by strong growth of infrastructure finance portfolio
- | Increase in net income from investments due to higher revenues from portfolio management in Public Sector Finance
- | Increase in administrative costs driven by strong business expansion
- | 18% increase in profit before tax
- | Segment fully in line with our expectations

The New Group – Public Sector Finance earnings sustainability

A very stable and countercyclical business which was even benefiting from the recent crisis

€Bn	Public Sector Finance (DEPFA)
Volume as of Q2 2007	183
New commitments	14
Sales	-5
Maturities and other	-8
Volume as of Q3 2007	184

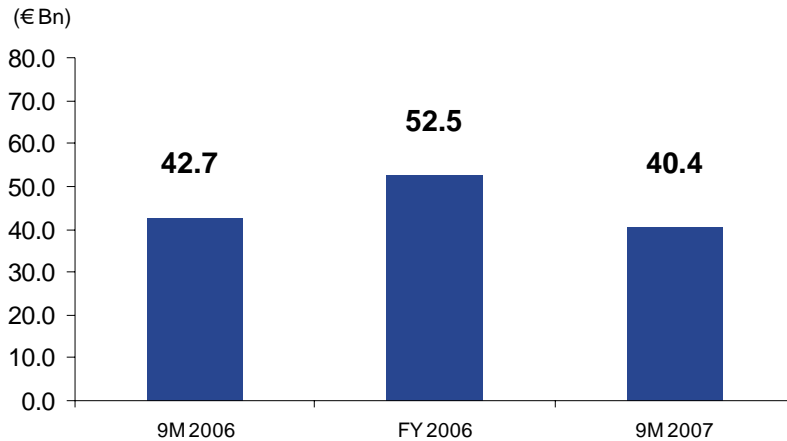
- I New business written in Q3 amounted to € 14.1 Bn with an average rating of AA2
- I New business margins very favourable at 29 Bp in comparison to previous quarters (H1: 17 Bp)
- I Portfolio management sales amounted to € 5.5 Bn (average quarter in H1: € 9.9 Bn)
- I Interest income in Q4 expected to pick-up resulting from improved new business margins and portfolio growth

▶ **Margin trend reversal in Public Sector Finance with new business margins of 29 Bp in Q3**

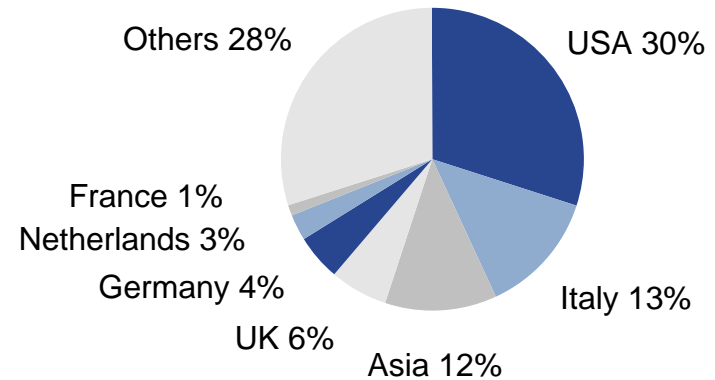
The New Group - Public Sector and Infrastructure Finance

Portfolio development shows growth for the first time since Q4 2006

NEW PUBLIC SECTOR FINANCE BUSINESS 9M/2006 – 9M/2007⁽¹⁾



NEW PUBLIC SECTOR FINANCE BUSINESS By Region per 9M/2007⁽¹⁾



100% = €40.4 Bn

Note:

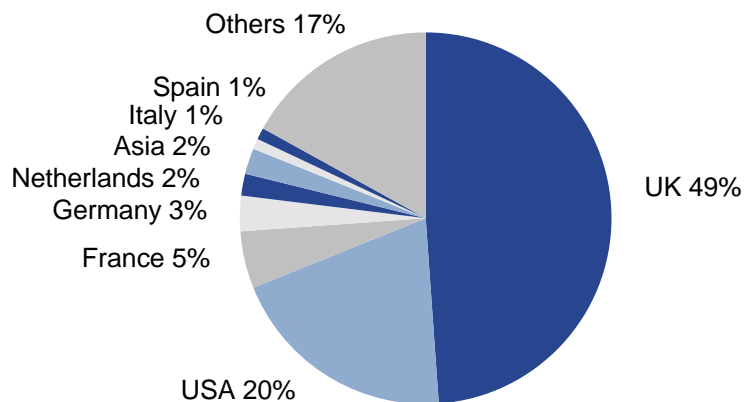
1. Internal, unaudited figures based on commitments

The New Group - Public Sector and Infrastructure Finance

Strong growth in infrastructure finance

NEW INFRASTRUCTURE FINANCE BUSINESS

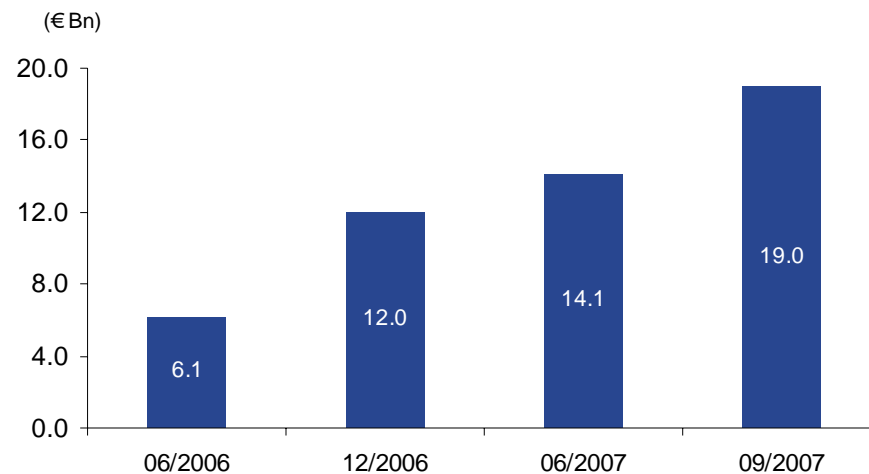
Per 9M/2007⁽¹⁾



100% = €10.5 Bn

INFRASTRUCTURE PORTFOLIO DEVELOPMENT⁽¹⁾

12/2003 - 09/2007



- I New infrastructure finance business of €5.6 Bn in Q3 2007
- I Net increase of asset finance portfolio of €4.9 Bn to €19.0 Bn
- I New business margin in line with business plan

The New Group - Capital Markets & Asset Management Combined Financials

KEY FINANCIALS (IFRS)	Q3 2007	Q3 2006	Change (%)
(€ MM)			
Total operating revenues	-26	49	>-100
Net interest income	13	4	>+100
Net commission income	6	4	+50
Net trading income	-26	39	>-100
Net income from investments	-19	1	>-100
Balance of other operating income/expenses	0	1	-100
Provisions for losses on loans and advances	-1	0	>-100
General administrative expenses	24	16	+50
Balance of other income/expenses	0	0	0
Net income/loss before taxes	-51	33	>-100
Taxes on income	-10	6	-33
Net income/loss	-41	27	>-100

- I Net interest income up income up due to increased GIC business
- I Trading losses and losses from sale of assets in the amount of € 45 MM due to recent market turmoil
- I Administrative expenses up due to business expansion (asset management, distribution and securitisation)

Significant headway in minimizing the proprietary trading of the Group:

- | Already reduction of DEPFA interest rate exposure by well in excess of 50%
- | Reduction of trading assets by more than €3 Bn in Q3
- | Closing of proprietary trading in Nicosia, Emerging markets trading in New York and Foreign Exchange trading
- | Global emerging market head count reduced by 80% and reduction in staff focused on credit trading related products by 30%

Focus on future trading activities around client business:

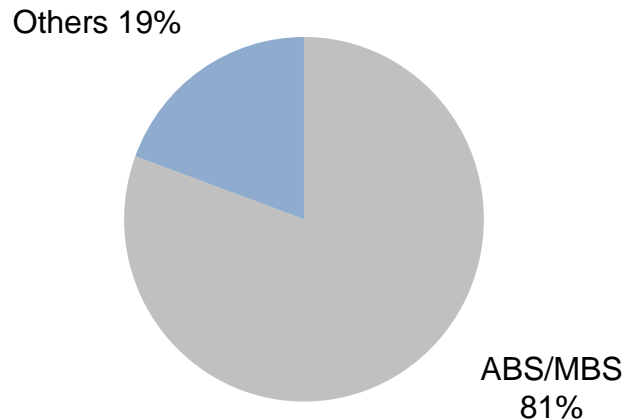
- | CMBS related trading
- | Trading of client derivatives
- | Trading of public sector risks (sovereigns, sub-sovereigns, US municipals and emerging markets)

The New Group – Capital Market & Asset Management

Assets under management/administration decreased from €40 Bn to €22 Bn

SPLIT BY BUSINESS TYPE

Assets under Management/Administration
09/2007⁽¹⁾



100% = €22.3 Bn

- I Collineo Asset Management manages various portfolios for third parties with total assets under management of € 17.0 Bn, focusing on ABS/MBS
- I In addition, HPFB administers an A-1, P-1, F-1 asset backed commercial paper conduit (Morrigan), currently €5.3 Bn (down from €24.2 Bn at Q2 2007)
- I The strong reduction in assets at Morrigan clearly shows that the business model of pure asset administration works
- I Reduction in revenue contribution of assets under management limited as 5 Bp on €20 Bn assets make up for a difference in fees of € 10 MM p.a.

The New Group - Corporate Center Combined Financials

KEY FINANCIALS (IFRS)	Q3 2007	Q3 2006	Change (%)
(€ MM)			
Total operating revenues	-7	14	>100
Net interest income	-6	30	>100
Net commission income	-1	-1	0
Net trading income	-21	-21	0
Net income from investments	3	8	-63
Balance of other operating income/expenses	18	-2	>+100
Provisions for losses on loans and advances	9	10	-10
General administrative expenses	51	53	-4
Balance of other income/expenses	65	0	>+100
Net income/loss before taxes	-2	-49	+96
Restructuring expenses	92	0	>+100
Taxes on income ⁽¹⁾	-60	-3	>100
Net income/loss⁽¹⁾	-34	-46	+48

I Net interest income € 36 MM lower due to reduction of non-strategic German portfolio and closing of legacy Global Markets portfolio at DEPFA

I One-off effects in context of DEPFA transaction, excluded from Q3 combined financials (page15):

- € 65 MM other income from valuation effect for the Mandatory Convertible Bond

- € 92 MM merger related costs and restructuring expenses to be recorded as equity adjustment with first time consolidation in Q4

| 29 | **Note:**

1. Excluding the effects from capitalised losses carried forward, the income of capitalised corporate income tax claims and the effect from revaluation according to corporate tax reform act at old Hypo Real Estate Group

- ▶ **Lending activities in Commercial Real Estate, Public Sector and Infrastructure Finance are growing with favorable returns**
- ▶ **Proprietary trading activities are in run-off mode**
- ▶ **12% ROE target for 2007 confirmed**
- ▶ **Integration of DEPFA will be completed in Q1 2008**
- ▶ **New Group is fully on track to achieve its 15% ROE goal as laid out in the business plan for 2010**

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Old Hypo Real Estate Group – Equity and liabilities are no concern

Overview of liabilities

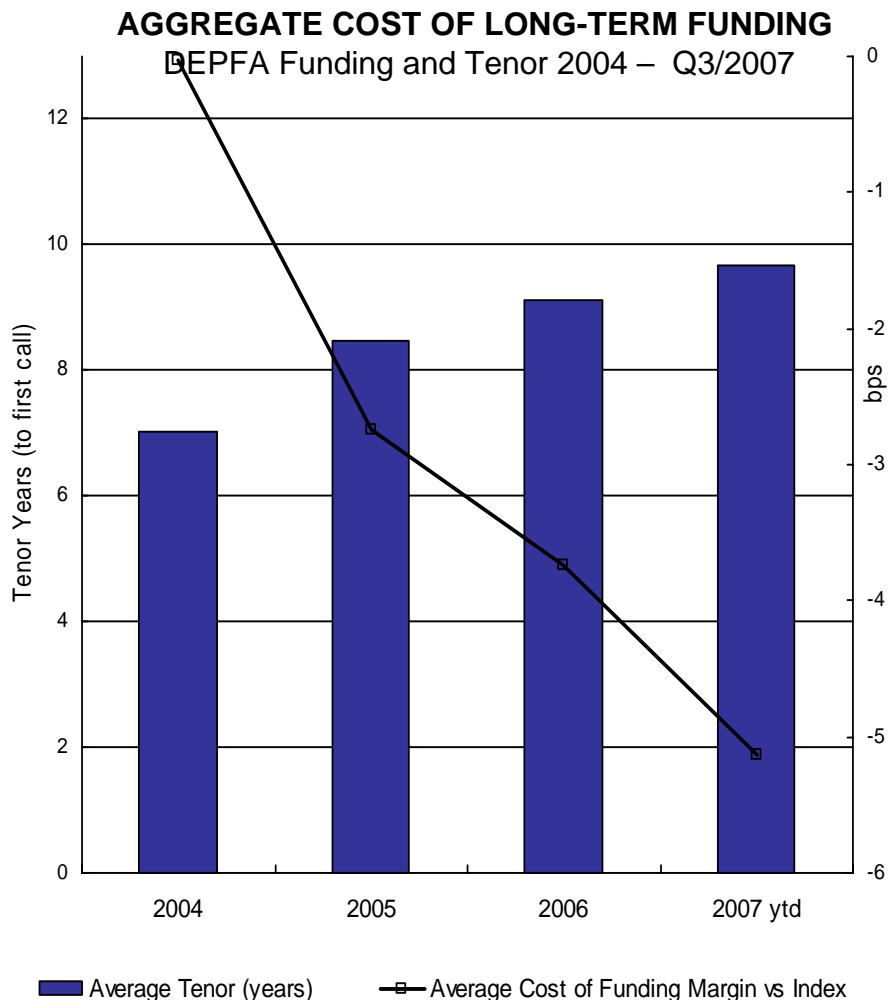
EQUITY AND LIABILITIES		
€MM		
Deposits from other banks	29,787	28,451
Amounts owed to other depositors	15,325	13,868
Promissory notes and other liabilities evidenced by securities	95,957	101,137
Liabilities held for trading purposes	6,181	7,316
Provisions	54	56
Other liabilities	7,974	9,281
Income tax liabilities	1,835	2,809
Subordinated capital	3,066	2,610
Liabilities	160,179	165,528
Equity attributable to equity holders	3,385	3,113
<i>thereof revaluation reserve</i>	<i>-1,772</i>	<i>-1,788</i>
Minority interests	0	0
Equity	3,385	3,113
Total equity and liabilities	163,564	168,641

CONTINGENT LIABILITIES AND OTHER COMMITMENTS		
€MM		
Contingent liabilities and other commitments	18,629	15,600

- I Interbank deposits consists mainly of collateralised Repo business with other banks (€ 23 Bn), therefore short term liabilities are not an issue as these bonds can largely be pledged to the Central Bank
- I CF-Hedge reserve of € -1,465 MM results is the largest part of the revaluation reserve. It stems from fixed rate loans and refinancing which were swapped down to variable rates via derivatives. The CF-hedge reserve reflects the negative value of these derivatives whereas the positive value of the underlying assets/liabilities are not accounted for. The Revaluation Reserve doesn't affect the Core Tier I capital (€5 Bn)

The New Group - Wholesale Funding Concerns

The private placement market continues to be a reliable funding source (experience of DEPFA)



- I DEPFA does not operate in the markets that have been exposed to the most widening as its funding strategy is fundamentally based on being a rates vs. credit issuer
- I Focus on private placements; during the 3Q, €1.8bn private placements and registered notes were closed at a spread of -6.95bps and an average weighted duration of 4.78 years; in line with pre-crisis cost of funding
- I The overall funding YtD is €9.7 bn with an average cost of funding of libor -5.13bps compared to libor -4.11bps for the same period last year
- I The average duration on all liabilities issued YtD was 0.8 years longer than for the same period 2006

The New Group – Concerns about the real estate market

How would calming commercial real estate markets affect commercial real estate financing

Investor situation

- | Lower leverage as banks', raters' and investors' risk awareness increased (less financial players, less non-professional players, less developers, highly leveraged investors who bought at the peak will suffer, opportunities arise for strong and knowledgeable investors)
- | Longer durations for investors to achieve profitability targets

Financing situation

- | More conservative, more adequate risk structures (cash-flow, equity, amortization, covenants)
- | Higher net lending margins (less competitive pressure, especially from non specialised banks and securitizers)
- | Less prepayments, less gross new business needed for net growth and profitability targets

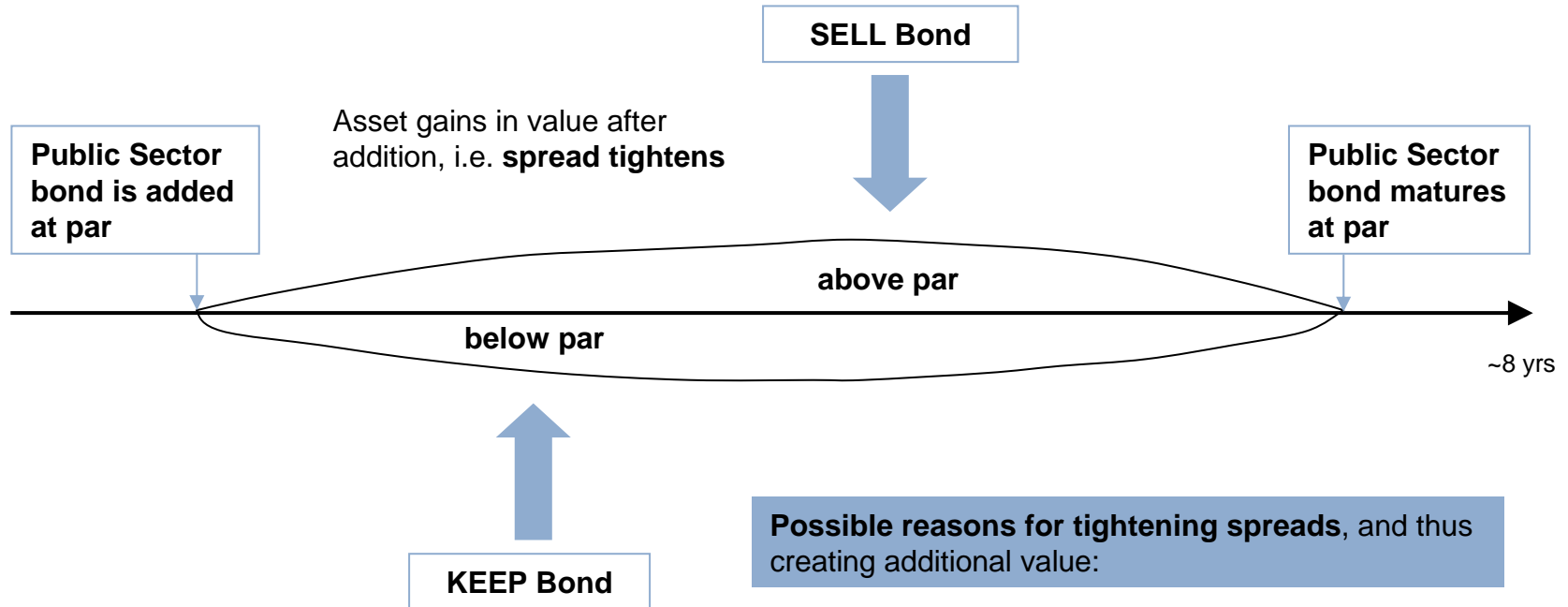
▶ **Significantly better conditions (margins, covenants) for on-balance sheet lenders with sound portfolio**

▶ **More opportunities for conservative senior lenders like HRX – a bigger share in a smaller but more profitable and less leveraged market**

▶ **Increased risk perception/lower competition allows for increased IRR target of >15% (previously >13%)**

The New Group – Public Sector Finance earnings sustainability

Portfolio Management – no miracle, no trading



Possible reasons for tightening spreads, and thus creating additional value:

- I Structural reasons, i.e. **rolling down the credit curve** (closer to maturity, credit spreads tighten, as payback becomes more certain)
- I **Supply/demand** peculiarities, e.g. money market funds step in at remaining maturities of 2-3 years
- I Correct **credit assessment** and “**random**” chances

VaR Global Markets Trading Books

