

Hypo Real Estate Group

**Statement
2007 Financial Results**

Press Conference 2008

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The spoken word is applicable!
(Translation of the German original)

Chart 1: Welcome!

Ladies and Gentlemen,

Good morning, and welcome to our financial results press conference of 2008. This is the first press conference of the “new” Hypo Real Estate Group, which has come into being as a result of the acquisition of DEPFA BANK.

The new Group has not been faced with ideal conditions for an easy start. The fact that our industry currently has to operate in a very difficult and challenging environment needs no further comment, and I am sure that we all agree in this respect. The market turmoil which we have been experiencing on the international financing markets since the middle of last year has been described as “historic” by numerous experts. The markets have become unpredictable to a degree which I have not previously experienced in my professional career which stretches back more than thirty years. It is understandable that these events have resulted in considerable uncertainty and widespread speculation on the capital market amongst shareholders, analysts and traders which in turn has also resulted in incorrect valuations.

Even if it is not possible to entirely remove this uncertainty amongst investors, there is one means by which companies can use to tackle the problem: openness and transparency. This is exactly what we have promised for today, and this is the reason why I now wish to start immediately to address those subjects which are the most critical for you:

Chart 2: Major issues

1. What is the situation of our Group in view of the current market developments?
2. What have we achieved in 2007?
3. Looking back, how does the Management Board assess the events of 15 January when we announced the provisional figures for 2007, from the perspective of the Management Board itself
4. What are our expectations for the current financial year?

Allow me to make one preliminary comment: In recent months, we have all learned how quickly market conditions can change at present and how quickly assessments of possible problems have to be revised. Everything which we report to you today with regard to current issues can thus only reflect our current state of knowledge – no more and no less.

I should first like to consider the current market situation and the implications for the Hypo Real Estate Group.

Chart 3: Figures for 2007

- *First statement: The figures in the financial statements for 2007 published today are consistent with our statement of 15 January.*

The actual figures do not differ at all, or differ only marginally, from the preliminary figures. When the annual financial statements were being prepared, there were no significant positive or negative developments which would have required consideration. Dr. Fell will provide you with detailed information concerning the figures following my comments.

Chart 4: US CDOs and other credit-linked investments

- *Second statement: The situation for these asset classes has meanwhile deteriorated even further so far in 2008, which means that the possibility of further charges on earnings cannot be precluded.*

As communicated, we recognised impairments of EUR 390 million in relation to US CDOs in the fourth quarter of 2007. After this figure is netted with the existing provisions of EUR 95 million, this has resulted in a charge of EUR 295 million on earnings from this portfolio, which now has a net exposure of EUR 1 billion. Per 31 December 2007 therefore, US CDOs were protected by accumulated risk provisions of 40%.

The market situation for this asset class has deteriorated further in recent weeks. This means that the possibility of further impairments recognised in the income statement this year cannot be precluded.

Moreover, the market turbulence is likely to have a negative impact on the revaluation reserve shown in equity. Dr. Fell will consider this aspect later.

In addition to the CDOs, our Group has further credit-linked investments in its books, for instance European CDOs, CLOs and CSOs. The total net volume of these products, incl. the US CDOs is EUR 1.8 billion. This is equivalent to approximately just 0.5% of the Group's total assets of EUR 400 billion. Accordingly, this portfolio may be considered to be of manageable proportions.

Regarding European CDOs, we have already recognised an impairment of EUR 76 million in the 2007 financial statements. As a result of netting with existing provisions, the net charge on the income statement last year was only EUR 6 million.

Chart 5: Real estate linked investments

- *Third statement: We are currently not expecting any charges on earnings as a result of credit risks from so-called real estate linked investments.*

Our core business of commercial real estate and public finance means that we also conduct investments with a direct link to real estate financing. These real estate linked investments include CMBS and RMBS products with a total volume of approx. EUR 3.2 billion. They are of sound quality in terms of rating, creditworthiness and default risks. The risk quality of the investments is equivalent to the normal high level in our real estate financing.

Accordingly, we are not expecting any charges on earnings as a result of credit risks. However, changes in the market prices of these securities must be recognised. These are however temporary accounting revaluations and they are explicitly NOT realised losses. This is a crucial difference which is frequently overlooked at present when measuring risk in the balance sheets of banks. Because we are not compelled to sell these securities we consider that, in view of the portfolio quality, there is a good chance in most cases of realising those amounts which are reported in our accounts when the securities finally mature.

Chart 6: Monoliners

- *Fourth statement:* The direct exposure of our Group to the US monoliners is of manageable proportions and is strictly managed.

In recent weeks, a key issue on the market has been the problem of the large US bond insurers – so-called Monoliners. Speculation on the market has focussed on the extent to which the rating downgrades of the Monoliners will affect the securities which they insure.

The Hypo Real Estate Group has an exposure of € 0.3 billion attributable to direct guarantees of various monoliners; some of this figure is recognised in the trading book and changes in value in certain cases are also reflected in the income statement. To further clarify the situation: In addition to the above, as part of our public finance business, we have invested in US government risks in the form of bonds which are additionally provided with a guarantee of a Monoliner for enhancing the rating of the paper. This does not result in any risk exposure for the bank, because the paper is issued by the State. This is also applicable to a lesser extent for infrastructure finance.

Chart 7: Development on the international real estate markets

- *Fifth statement:* The structural changes in some real estate markets have been identified and have resulted in appropriate countermeasures.

The markets for commercial real estate financing have become more difficult and more risky not only in the USA but also in countries such as Spain and Great Britain. However, we anticipated this development at an early stage and have been gradually reducing our exposure and the risk in these markets since the end of 2006. The portfolios in Great Britain and the USA declined by 19% and 9%, respectively, in 2007, whereby the exposure to individual segments, such as condominiums, was even further reduced.

We are also reaping the benefit of having adopted a conservative risk policy in these markets in recent years. This is one of the reasons why only four exposures in these countries are currently on the watch list, and only one

exposure is sub-performing. At the end of 2007, only 2.7% of our world-wide financing portfolio was classified a “problem loans”. Overall, our risk situation in commercial real estate financing can be described as stable.

The conservative risk policy in view of the currently difficult markets was also a major contributor to our January guidance that we are not expecting any growth in our real estate financing portfolio in 2008. At the time some investors and analysts were critical of our alleged, excessive conservative planning. This criticism has meanwhile fallen silent, because the critics have realised that there is no alternative to the strategy of minimising risk.

The risk positions in our non-strategic real estate financing portfolio were also further reduced in 2007 as a result of sales and active portfolio management. The volume declined from EUR 11.2 billion to EUR 6.5 billion. The sale of a portfolio worth EUR 4.3 billion to ING-DIBA in mid-2007 played a major role in this respect. As a result of this sale involving around 50,000 residential loans, we will be able to reduce our general administrative expenses in 2008 by approximately EUR 10 million.

Chart 8: Capitalization

- *Sixth statement: The Hypo Real Estate Group has sound and adequate capitalization which will permit further growth.*

With a BIS Tier I capital ratio of 7.0 % and an own funds equity ratio of 9.4% at the end of 2007, our Group has adequate capitalization which takes account of the expectations of the rating agencies and provides us with adequate scope for further growth. As you will be aware, one of the reasons behind our decision to reduce the dividend for 2007 from EUR 1.50 to EUR 0.50 per share is to strengthen our capital base. We were heavily criticized for the dividend cut. Rest assured, this was not a decision we took lightly because we have always placed great emphasis on ensuring that our shareholders receive an adequate return on their investment. However, we stand by our opinion that, in this exceptional market situation, it is advisable to give precedence to retaining earnings and thus to avoid possible capital measures and the associated dilution of shareholders' assets. What we have continued to emphasise in recent weeks still applies: The Hypo Real Estate Group is adequately capitalized at present.

At the Annual General Meeting to be held on 27 May 2008, the Management Board and Supervisory Board will submit a proposal to shareholders for the creation of new authorised capital. The reason is that the existing authorised capital was fully utilised last year for partially financing the DEPFA acquisition. We will thus propose a new capital framework, as authorised capital is one of the normal and essential options for every joint stock corporation. However, please do not draw any false conclusions in this respect: These are purely resolutions regarding future situations which may or may not occur. A capital increase is not necessary – at least as far as can be seen at present.

Chart 9: Funding

- *Seventh statement: The funding markets have without doubt become more difficult in recent weeks, but they are manageable for the Hypo Real Estate Group.*

With regard to funding, which is probably the most important issue for banks at present, a distinction should be made between the two platforms at the Hypo Real Estate Group. We have so far reported an intact development for the public finance of DEPFA. DEPFA has highly liquid assets mostly consisting of ECB- and repo-eligible papers. These are securities which are used as collateral for refinancing transactions with the European Central Bank. This means that, together with existing liquidity, there is a buffer of approx. EUR 38 billion.

In the field of real estate financing, all lendings are refinanced on the basis of matching maturities. It is thus only necessary to consider the question as to whether we have adequate liquidity for new business. As regards to new business, we are benefiting from the fact that a significant proportion of our business volume is Pfandbrief-backed. Simply put, one third of our real estate portfolio is financed by Pfandbriefe, one third is financed by borrowers' note loans ("Schuldscheindarlehen") and one third is backed by uncovered bonds. We continue to have access to long-term uncovered funding, whereby the terms have shortened and spreads have widened as a result of the market turmoil. Nevertheless, you can see that we are still fully capable of functioning in this particular field by the fact that we are currently considering buying financing

portfolios which are refinanced by Pfandbriefe. Overall, we have a liquidity reserve of € 7 billion for real estate financing.

To summarise, it can be stated that funding has become more demanding in recent weeks for our Group – as is also the case for other banks.

This is an overview of the most important current issues which are currently dominating the discussions of investors. Dr. Fell will subsequently provide you with further details concerning the individual aspects.

Ladies and gentlemen,

I now wish to turn my attention to the second issue – namely the events of last year. Despite the many problems caused by the general crisis on the international financial markets and the inevitable impact on our business, the Hypo Real Estate Group 2007 reported a generally successful year in 2007.

Chart 10: Successful acquisition of DEPFA

The acquisition of DEPFA Bank which was completed at the beginning of October 2007 has resulted in the formation of a leading international provider of financing solutions for commercial real estate, public finance and infrastructure projects. With the acquisition, which had a volume of EUR 5.2 billion and was completed within a period of only two-and-a-half months despite the emerging crisis on the financial markets, we have attained a milestone in the development of our Company. The core activities of both houses – commercial real estate financing and public sector financing – complement each other perfectly. In the field of infrastructure finance, which has promising future prospects, we have pooled our activities and transformed them into a new dimension.

The result is an internationally active finance group with total assets of EUR 400 billion and with operations in the following three fields:

- Commercial Real Estate,
- Public Sector & Infrastructure Finance, and thirdly
- Capital Markets & Asset Management

We are pleased to report that the integration of DEPFA has been more rapid and less costly than originally planned. The main legal and structural measures for restructuring the Group have now been completed or, are to a large extent, implemented. These measures include the reorganisation of the Group, the pooling of world-wide activities in the Commercial Real Estate segment and the associated relocation of the headquarters of Hypo Real Estate Bank International AG from Stuttgart to Munich as well as optimising the international sales network. As announced, the proprietary trading activities of DEPFA which do not fit in with the strategy of the new Group have been discontinued.

Chart 11: Successful development in core areas of business

In 2007, the Hypo Real Estate Group has reported a good, and in certain cases excellent performance in its three core areas of operation. New business was in certain cases considerably higher than originally budgeted; in Real Estate Finance alone, new business of EUR 32.1 billion was 37 % higher than the original forecast. The Group has thus again considerably increased its selling capability and has shown that its business model is intact and capable of generating growth.

We are also satisfied with the development in operating revenues of the Group. The pre-tax profit of EUR 587 million shown in the income statement reflects numerous one-off effects, mainly in connection with the acquisition of DEPFA BANK and the turmoil on the international financial markets. If the pre-tax profit is adjusted by the contribution to earnings of DEPFA from the point of consolidation on 2 October, extraordinary effects attributable to the acquisition of DEPFA and other extraordinary effects not linked to operations, adjusted pre-tax profit is reported as EUR 691 million. It is thus higher than the minimum target of EUR 680 million which we communicated at the beginning of 2007.

Ladies and gentlemen,

When we published the provisional figures for financial 2007 on 15 January of this year, we were the first major German bank to provide the market with a very specific assessment of the situation in the light of the current crisis in the financial markets. For us, it was important to create public transparency at an early stage. If I may be permitted to say so, we were not rewarded for our speed. As you will

be aware, the announcements of the impairments in relation to the US CDO portfolio and the dividend cut triggered a severe reaction in our share price. Our Group and its management bodies were criticised by the capital markets and subsequently also by the media for the way in which this information was communicated.

I admit that we were surprised, and remain so to the present day, by the severity of the market reaction. We consider that there are no fundamental reasons for the fall in our share price over recent months, and I regret that our shareholders have seen a fall in the value of their shares.

I wish to emphasise again however, that we remain convinced that we have informed the market at all times in accordance with the rules of the capital market and to the best of our knowledge. We disclosed the exposure of our Group to US CDOs already on 3 August 2007 in a press release. At the point at which nine-month figures were announced at the beginning of November, it was not possible for us to foresee that there would be losses in our portfolio which would be relevant for the income statement.

Moreover, there was no adequate appreciation or even no appreciation at all by critics of the fact that it was not possible for a sufficiently exact quantification of the changes in the market values of the CDOs to be made at "the push of a button"; instead, such quantification required an extremely complex and dynamic valuation process because an active market on which it would have been possible to determine market prices at all times did not exist for these securities. The valuation process not only had to analyse the 40 CDOs; in addition, it had to analyse the more than 6,000 underlying securities and the even more remotely associated loans and collateral. We are convinced that it was not possible to more swiftly provide a reliable assessment of the impairment requirements and thus to notify the public more quickly.

Please do not misunderstand: As the Management Board we have taken the criticism of the market very seriously, because investor actions are based primarily on confidence. I believe that, since the spin-off in 2003, we have not provided the market with any reason to doubt the trustworthiness of the Hypo Real Estate Group – on the contrary. We will do our utmost to re-establish confidence in us again. Consider today's event as a building block in this respect.

Anybody who wishes to receive even more detailed information is invited to follow our investor event, which will be broadcast on the Internet this afternoon.

Chart 12: Outlook 2008

Ladies and gentlemen,

it is very difficult to provide a specific assessment for the development of our Group business this year. It is a fact that the capital and financial markets have become even more difficult for our industry in recent weeks. Submarkets, such as the securitisation of loans, are still not functioning or are functioning only to a very limited extent. The impairment requirement in the credit industry has in certain cases reached volumes which have been far in excess of the most outrageous estimates of market experts. The fear that the financing crisis might spill over into other areas of the economy has increased, not least in view of the economic prospects in the USA and in Europe which are already not very positive. Extreme caution is advisable for all these reasons.

At present, it is not possible to make a reliable assessment of the development of the capital and financing markets for the remainder of the year. One of the assumptions of our planning which was drawn up at the end of 2007 was that there would not be a significant deterioration in credit and refinancing spreads. However, there is evidence that spreads have again widened appreciably since January.

We subjected our earnings target for 2008 which we communicated in January to the proviso that no unforeseen negative events of major significance for the Group would occur. We must place even greater emphasis on this proviso today. As a result of the negative market developments so far this year, we cannot, at present, preclude the possibility that the forecast figure for financial 2008 might not be achieved completely. The markets have become unpredictable. This also includes the possibility that we might see positive movements in the opposite direction in the near future.

All of this does not change the fact that we anticipate that the positive development in our operations will continue this year and also in the medium term. The new Hypo Real Estate Group is well equipped for further growth. New

business in the field of public finance has made a positive start in the first two months of 2008, both in terms of volume as well as in the quality and profitability of loans. We have reported a moderate development in January and February in the field of real estate financing, albeit also as a result of a consistent policy of minimising risk.

The major strategic importance of the acquisition of DEPFA Bank for our Group is already apparent. In 2008, we will benefit for the first time from the forward-looking segment of Public Finance and Infrastructure Finance which we have deliberately strengthened as a result of the acquisition. Our Group now has a well balanced structure. Although the current market climate is not providing any cause for celebrations, we continue to be greatly optimistic as regards to the prospects of our Group.

Thank you very much.

I would now like to hand over the floor to my colleague on the Management Board Dr. Fell.