

## **FITCH UPGRADES HYPO REAL ESTATE GROUP'S SHORT-TERM IDRS TO 'F1+', AFFIRMS LONG-TERM IDRS AT 'A-'**

Fitch Ratings-London/Frankfurt-04 June 2009: Fitch Ratings has today upgraded Hypo Real Estate Holding AG's (HRE Holding) Short-term Issuer Default Rating (IDR) to 'F1+' from 'F1'. This follows the forthcoming change in HRE Holding's ownership structure whereby the German Financial Market Stabilisation Fund (SoFFin), acting on behalf of the Federal Republic of Germany (FRG, rated 'AAA'/F1+/Stable), will become the group's majority shareholder.

At the same time, Fitch has affirmed HRE Holding's Long-term IDR at 'A-', its Support Rating at '1', Support Rating Floor at 'A-' and Individual Rating at 'F'. The agency has also upgraded the Short-term IDRs of HRE Holding's subsidiaries to 'F1+' while affirming their other ratings.

Fitch has simultaneously affirmed HRE Group's rated hybrid Tier 1 securities, which were issued by Hypo Real Estate Bank International AG (which has been merged into HRE Bank AG) and Depfa Bank plc, at 'CC'. The Recovery Rating of these notes is 'RR5' (for further information, see the 4 March 2009 comment, entitled 'Fitch Downgrades Hypo Real Estate Group's Tier 1 Instruments', which is available on [www.fitchresearch.com](http://www.fitchresearch.com)). Fitch does not rate any upper tier 2 issuances of the group.

A full rating breakdown, including the actions highlighted above, is provided at the end of this comment.

The upgrade of the Short-term IDR to 'F1+' reflects Fitch's view that the bank's state ownership will remain in place for at least the short- to medium-term, which - combined with continued liquidity support and FRG's creditworthiness - will ensure an exceptionally strong capacity for timely payment of short-term financial commitments.

As anticipated, HRE Holding's shareholder meeting approved a capital increase amounting to EUR2.96bn on 2 June 2009, excluding the subscription rights of other shareholders in favour of the SoFFin. Following the capital increase, SoFFin will hold 90% of HRE Holding's capital and voting rights. Fitch understands that SoFFin intends to squeeze out the minority shareholders of HRE Holding to gain full control of the group, and that it will proceed with its restructuring which was initiated in late-2008. To stabilize the group, further capital injections, in addition to the initial EUR2.96bn capital increase, and continued liquidity support will be needed. As of end-March 2009, external funding guarantees for HRE Group totalled EUR100bn.

These developments are in line with Fitch's view that there is an extremely high probability of continued support from the German State for the HRE Group to ensure its status as a going concern (see Fitch's 3 February 2009 and 31 March 2009 comments), which is reflected in the Support Rating of '1'. HRE Holding's Long-term IDR is at its Support Rating Floor of 'A-'. Without the forthcoming capital injection, HRE Group would be in breach of regulatory capital ratios with a pro-forma Tier 1 ratio of 3.5% at end-March 2009, following losses in FY08 and Q109.

HRE Holding's and DEPFA Bank plc's Individual ratings will be reviewed once there is greater certainty regarding the group's organisational and funding structure, capitalisation and medium-term business plan. The plan is subject to a review by the European Commission due to the support measures received.

As previously stated, Fitch expects that the group's organisational structure will be further streamlined and that its operating subsidiaries are likely to be further integrated to achieve synergies. While DEPFA Deutsche Pfandbriefbank AG will be merged into HRE Bank, which is envisaged to conduct the group's future core business and hence new business activities, Fitch

understands that DEPFA Bank plc and its subsidiary, DEPFA ACS Bank, are likely to hold the group's non-core activities including the infrastructure finance, capital markets and trading businesses, which will be reduced and run-off over time. Fitch believes that an orderly winding down of the group's non core business is only possible under state ownership.

Today's rating actions have no impact on DEPFA ACS Bank's and DEPFA Pfandbriefbank's public sector covered bonds which are rated 'AAA' and 'AAA'/Rating Watch Negative (RWN) respectively, nor on the mortgage and public sector covered bonds of HRE Bank, rated 'AA+/'RWN and 'AAA'/RWN, respectively.

The rating actions with respect to HRE Holding and its rated subsidiaries are as follows:

Hypo Real Estate Holding AG  
Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR upgraded to 'F1+' from 'F1'  
Individual Rating affirmed at 'F'  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'

Hypo Real Estate Bank AG  
Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR upgraded to 'F1+' from 'F1'  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'  
Senior unsecured debt affirmed at 'A-'  
Subordinated debt affirmed at 'BBB+'  
Hybrid capital instruments affirmed at 'CC'; Recovery Rating 'RR5'

DEPFA Deutsche Pfandbriefbank AG  
Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR upgraded to 'F1+' from 'F1'  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'  
Senior unsecured debt affirmed at 'A-'  
Subordinated debt affirmed at 'BBB+'

DEPFA Bank plc  
Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR upgraded to 'F1+' from 'F1'  
Individual Rating affirmed at 'F'  
Support Rating affirmed at '1'  
Support Rating Floor affirmed at 'A-'  
Senior unsecured debt affirmed at 'A-'  
Subordinated debt affirmed at 'BBB+'  
Hybrid capital instruments affirmed at 'CC'; Recovery Rating 'RR5'.

DEPFA ACS Bank  
Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR upgraded to 'F1+' from 'F1'  
Support Rating affirmed at '1'  
Senior unsecured debt affirmed at 'A-'  
Subordinated debt affirmed at 'BBB+'

Hypo Public Finance Bank puc  
Long-term IDR affirmed at 'A-'; Outlook Stable  
Short-term IDR upgraded to 'F1+' from 'F1'  
Support Rating affirmed at '1'

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Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. A broad overview of Fitch's RR methodology as it relates to specific sectors, including a Case Study webcast, can be found at [www.fitchratings.com/recovery](http://www.fitchratings.com/recovery).

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