



Moody's Investors Service

Rating Action: **Moody's downgrades HRE's hybrids to Ca / C**

Global Credit Research - 18 Feb 2010

Frankfurt, February 18, 2010 -- Moody's Investors Service today downgraded the ratings of the Tier 1 preferred securities of Depfa Funding II, III and IV LP to Ca from Caa1 and the Upper Tier-2 securities (profit participation rights, or "Genussscheine") of Deutsche Pfandbriefbank AG (issued by various predecessor institutions) to C from Caa2. These ratings carry a stable outlook.

The downgrade of the non-cumulative perpetual preferred securities linked to the performance of Depfa Bank plc (rated A3 / E+) reflects Moody's view of the risk of further three to five years of coupon losses after no coupons were paid in 2009.

The rating on the profit participation rights reflects the large portion of the principal that was written down (roughly 70%) following the 2008 loss and Moody's expectation that there is little, if any, chance of a write-back of principal before their respective repayment dates in 2010, 2011, and 2012. As a principal write-back always has priority over coupon payments, no interest payments are expected either.

INSTRUMENTS AFFECTED:

1. Linked to the performance of Depfa Bank plc

Depfa Funding II, EUR400 million, 6.50% perpetual preferred security (ISIN: XS0178243332)

Depfa Funding III LP EUR300 million, 6.60% perpetual preferred security (ISIN: DE000A0E5U85)

Depfa Funding IV LP EUR500 million, 6.65% perpetual preferred security (ISIN: XS0291655727)

2. Genussscheine issued by Deutsche Pfandbriefbank AG or its predecessor institutions (Westfaelische Hypothekenbank AG and Wuerttembergische Hypothekenbank AG):

DEM100 million profit participation certificat due 31.12.2009, repayment date 06/30/2010 (ISIN: DE0008127218)

EUR13 million profit participation certificat due 31.12.2010, repayment date 30.06.2011 (ISIN: DE0008127226)

EUR50 million profit participation certificat due 31.12.2011, repayment date 30.06.2012 (ISIN: DE0008124041)

RATING HISTORY AND MOODY'S METHODOLOGIES

The last rating action on members of HRE Group was on 7 July 2009, when Moody's withdrew the E+ bank financial strength rating and A3/P-1 deposit ratings of DEPFA Deutsche Pfandbriefbank AG, in light of its merger with its sister bank, Hypo Real Estate Bank AG, to form Deutsche Pfandbriefbank AG (A3/Prime-1/E+, negative) .

The principal methodologies used in rating the members of Hypo Real Estate Group are "Moody's Bank Financial Strength Ratings: Global Methodology", published in February 2007, "Incorporation of Joint-Default Analysis into Moody's Bank Ratings", published in March 2007, and " Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", published in November 2009, which are available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Domiciled in Munich, Germany, Hypo Real Estate Group reported total assets of EUR374 billion at 30 September 2009 and a consolidated net loss for the nine months of EUR1.7 billion.

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