

# Preliminary Results 2008

**Investor Relations Presentation**  
March 30, 2009

Q4 2008 pretax loss of **EUR 2.5 bn** contributed to overall **pretax loss** of **EUR 5.4 bn** for **FY 2008 – loss after tax** at **EUR 5.5 bn** for **FY 2008**

**Main negative drivers** of Q4 result

▶ Increased **loan-loss provisions** of **EUR 1.4 bn**

- ▶ EUR 0.8 bn in CRE;  
individual loan-loss provisions of EUR 956 mio now cover 34% of CRE problem loans
- ▶ EUR 0.4 bn on certain public sector entities and infrastructure counterparties;  
individual loan-loss provisions of EUR 226 mio now cover 29% of PS&IF problem loans

▶ Further **write-downs** of **EUR 1.1 bn** on **structured products**

- ▶ Synthetic CDOs: EUR 177 mio
- ▶ Cash CDOs: EUR 353 mio
- ▶ MBS: EUR 524 mio
- ▶ resulting in coverage ratios of
  - ▶ Synthetic CDOs: 72% – remaining exposure now at EUR 224 mio
  - ▶ Cash CDOs: 60% – remaining exposure now at EUR 789 mio
  - ▶ MBS: 18% – remaining exposure now at EUR 2.7 bn

▶ **Market value adjustments** due to certain **counterparty risks** of **EUR -316 mio**

▶ **EUR 229 mio** additions to **restructuring provisions** in line with announcement – investment in 'New Bank'

## Highlights (cont'd)

**Declaration of intent** from **SoFFin**: SoFFin will implement measures to achieve a **sufficient recapitalization** of HRE Holding, and will prolong existing or extend **further guarantees** if necessary

- ▶ SoFFin to take up 20 million shares from authorized capital ex rights
- ▶ Full control prerequisite for intended recapitalization
- ▶ Further steps will be detailed after the bank rescue bill has been passed into law

### **Overall strategy defined**

- ▶ Focus on Real Estate and Public Sector Finance in Germany and Europe
- ▶ Funding focus on Pfandbrief

### **Restructuring program** in full progress

- ▶ Global workout unit currently being established
- ▶ Controlled process to manage down non-strategic portfolios (esp. infrastructure finance and CM&AM portfolios)
- ▶ Process started to merge DEPFA Deutsche Pfandbriefbank AG into HRE Bank AG
- ▶ Sale of DEPFA First Albany closed
- ▶ IT and process optimization program launched

**Outlook:** Loss situation anticipated at least for the next two years

# Agenda

**1** Financial results Q4/FY 2008

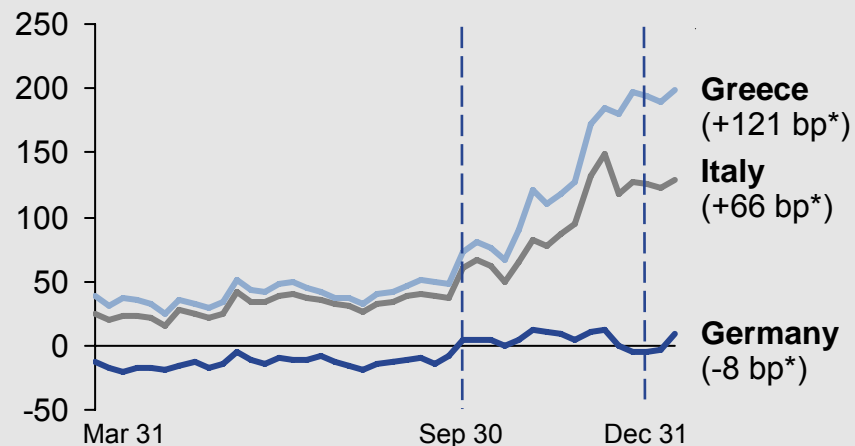
2 SoFFin support, liquidity and capital

3 Update management agenda and next steps

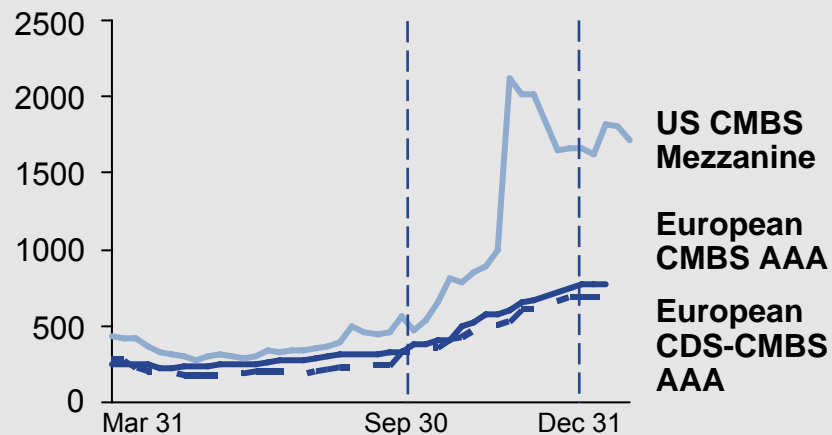
# Market dislocation accentuated in Q4

Bps

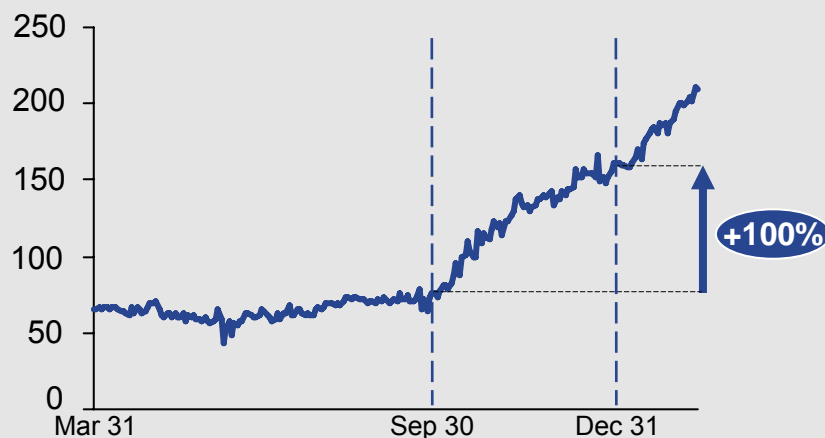
### Government spreads (30 years)



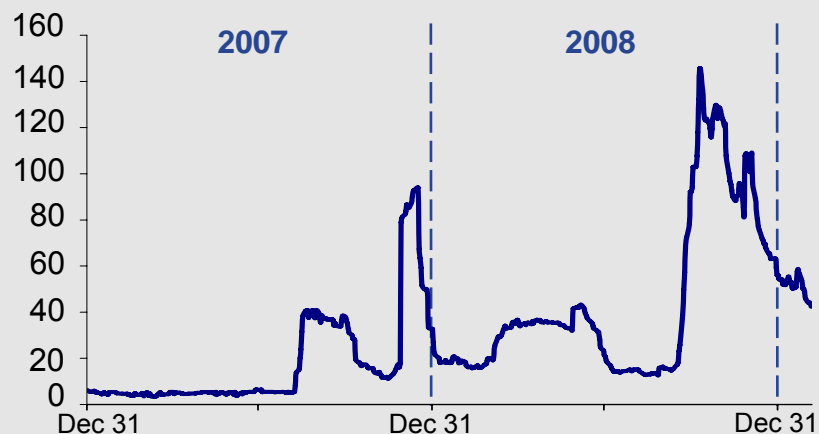
### CMBS spreads



### Euro Zone A+/A bank spreads (5 years)



### EURIBOR vs. EUREPO\*\*



Source: Bloomberg

\* Spread variation in Q4

\*\* Difference between market standard interest rates for unsecured 3-months money (EURIBOR) and secured 3-months money (EUREPO)

# Pretax loss of EUR 5.4 bn in 2008 – severe impact of economic downturn on real estate markets and effects from financial market crisis

## Hypo Real Estate Group

EUR millions

	Q4 2007*	FY 2007*	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008
Operating revenues	33	1,463	184	236	-345	-660	-585
thereof: Net interest income	440	1,471	299	304	354	676	1,633
Net trading income	-252	-274	-98	12	-349	-574	-1,009
Net income from financial investments	-206	6	-29	-135	-364	-881	-1,409
Provisions for losses on loans and advances	142	61	-33	-37	-177	-1,409	-1,656
General administrative expenses	-164	-656	-145	-160	-119	-181	-605
Pretax profit – before goodwill impairment and restructuring	32	889	190	17	-623	-2,248	-2,664
Impairment on DEPFA goodwill/intangibles	0	0	0	0	-2,482	0	-2,482
Additions to restructuring provisions	-27	-27	0	0	0	-229	-229
<b>Pretax profit</b>	<b>5</b>	<b>862</b>	<b>190</b>	<b>17</b>	<b>-3,105</b>	<b>-2,477</b>	<b>-5,375</b>

### Comments

- ▶ **Net interest income** benefitted from non-payment of coupons on hybrid instruments and devaluation of participation certificates\*\* as well as the drawn liquidity lines by customers of DEPFA
- ▶ **Net trading income** and **net income from financial investments** strongly impacted by spread widening and write-downs relating to the financial markets crisis
- ▶ Significantly increased **loan-loss provisions** in Q4, mainly relating to strong deterioration of real estate markets as well as weakening financial position of certain public sector entities and infrastructure finance counterparties
- ▶ **General administrative expenses** reduced by adjustment of bonus accruals; Q4 includes also consulting fees relating to the repositioning of the Group
- ▶ **Additions to restructuring provisions** relate to staff cutbacks, location closures and consulting fees

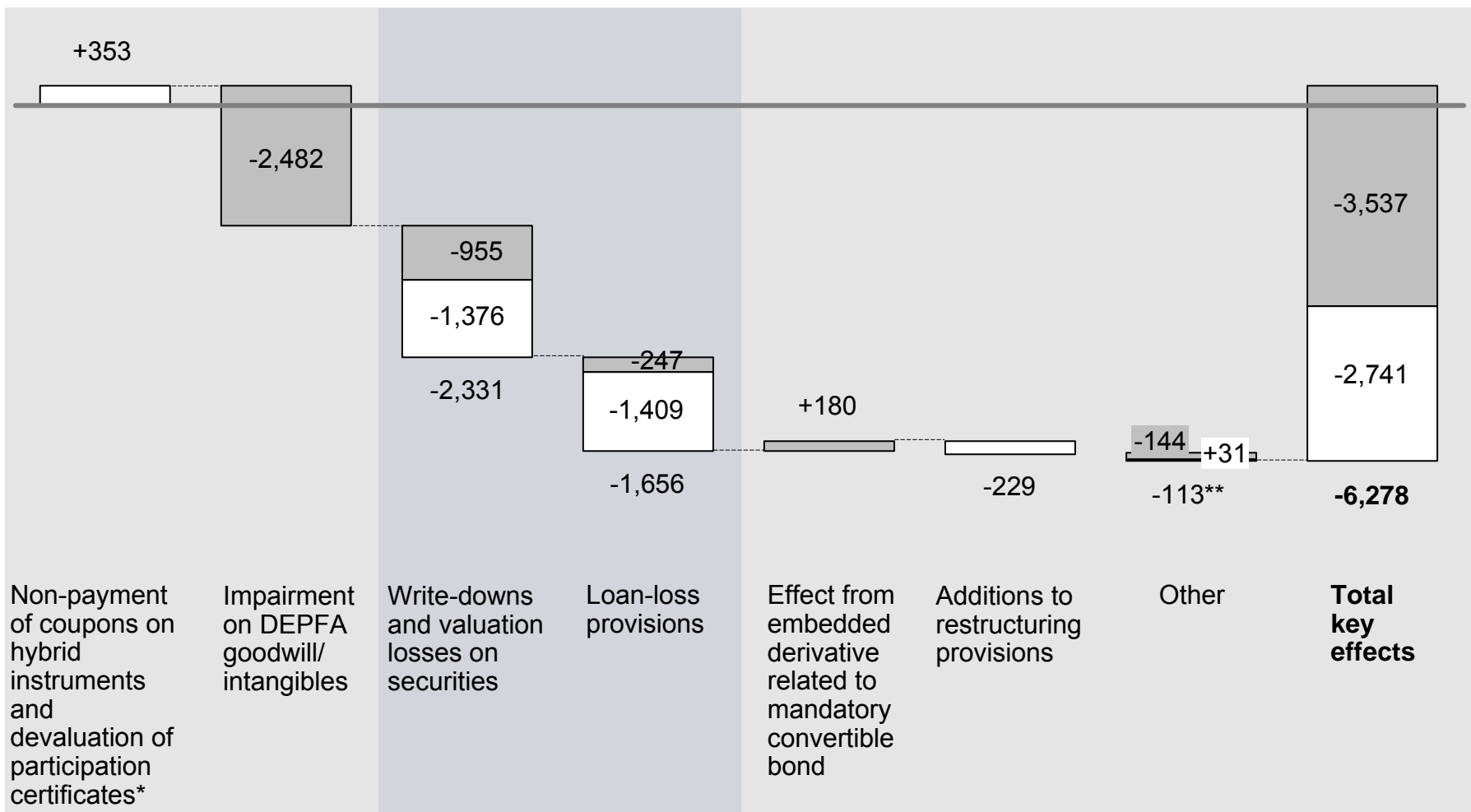
\* Pro forma figures

\*\* Except DEPFA Deutsche Pfandbriefbank AG

# Total key effects – write-downs and valuation losses on securities as well as loan-loss provisions major factors in Q4

EUR millions

■ Q1-Q3 2008 □ Q4 2008 ■ Detailed on following pages



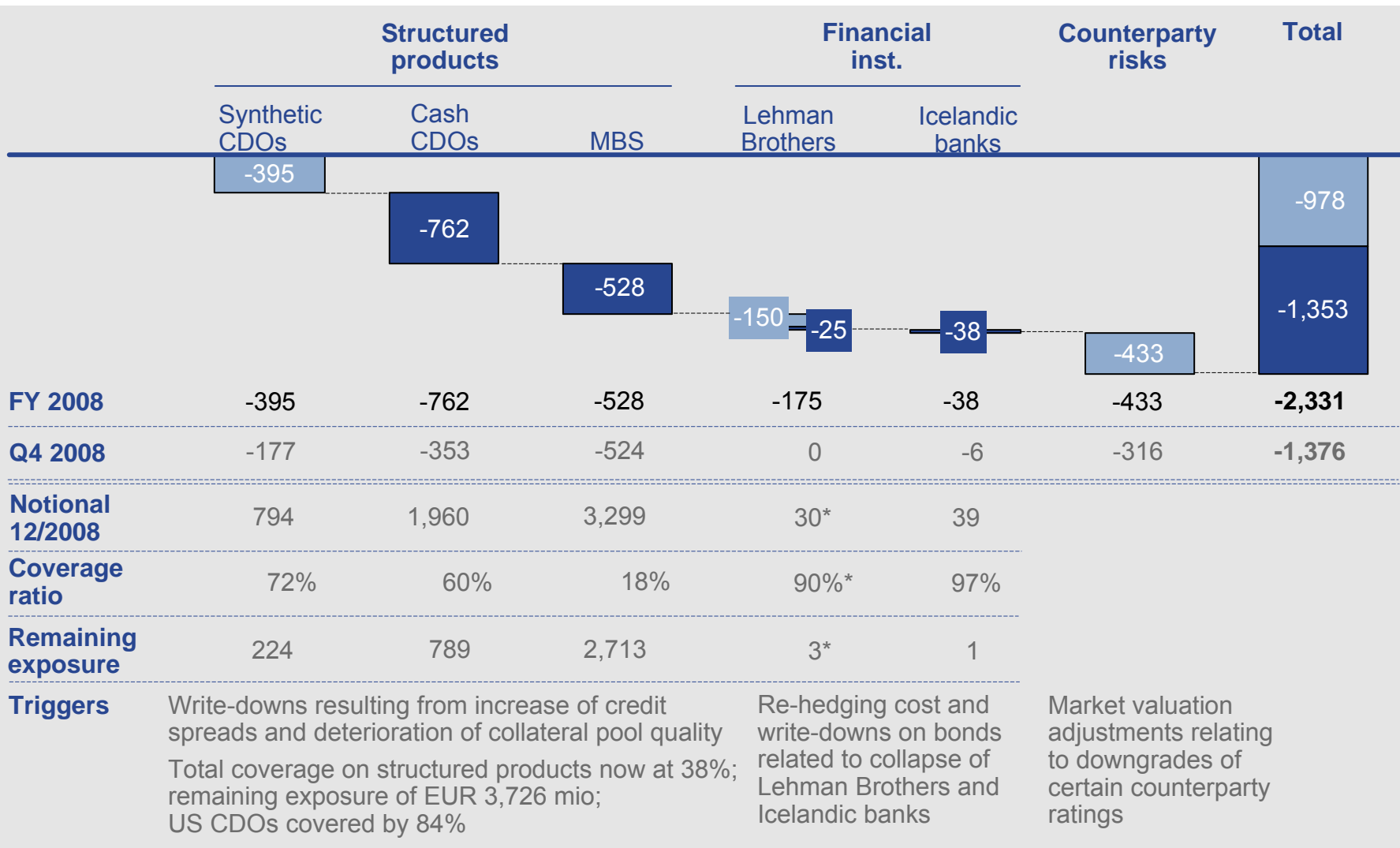
\* Except DEPFA Deutsche Pfandbriefbank AG

\*\* EUR -24 mio portfolio-based provisions on re-classified LaR assets, EUR -74 mio impairment on Babcock & Brown equity investment, EUR -15 mio deconsolidation effect related to sale of Collineo

# Key effects – write-downs and valuation losses on securities largely related to structured products and counterparty risks

EUR millions

Net trading result Net income from financial investments



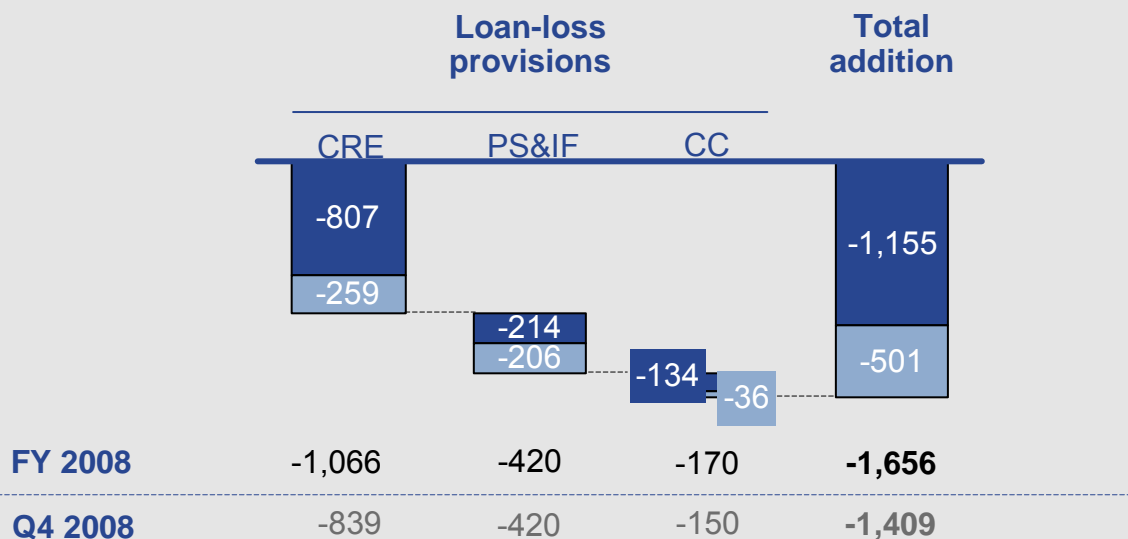
# Key effects – higher provisioning needs due to market deterioration

## Loan-loss provisions

EUR millions

■ Individual ■ Portfolio-based

### P&L



### Comments

- ▶ EUR 1,656 mio **total addition to loan-loss provisions** in 2008, thereof EUR 501 mio portfolio-based
- ▶ **Commercial Real Estate (CRE)**
  - ▶ Additions due to **strong deterioration** of real estate markets: **weakening solvency** of clients and **reduced value** of **collaterals** following the global recession
  - ▶ Individual provisions mainly in **Germany, Spain, US** and **UK**
- ▶ **Public Sector & Infrastructure Finance (PS&IF)**
  - ▶ Additions due to **weakening financial position** of certain public sector entities and infrastructure counterparties
- ▶ **Corporate Center (CC)** includes an addition of EUR 84 mio related to a single Cash CDO

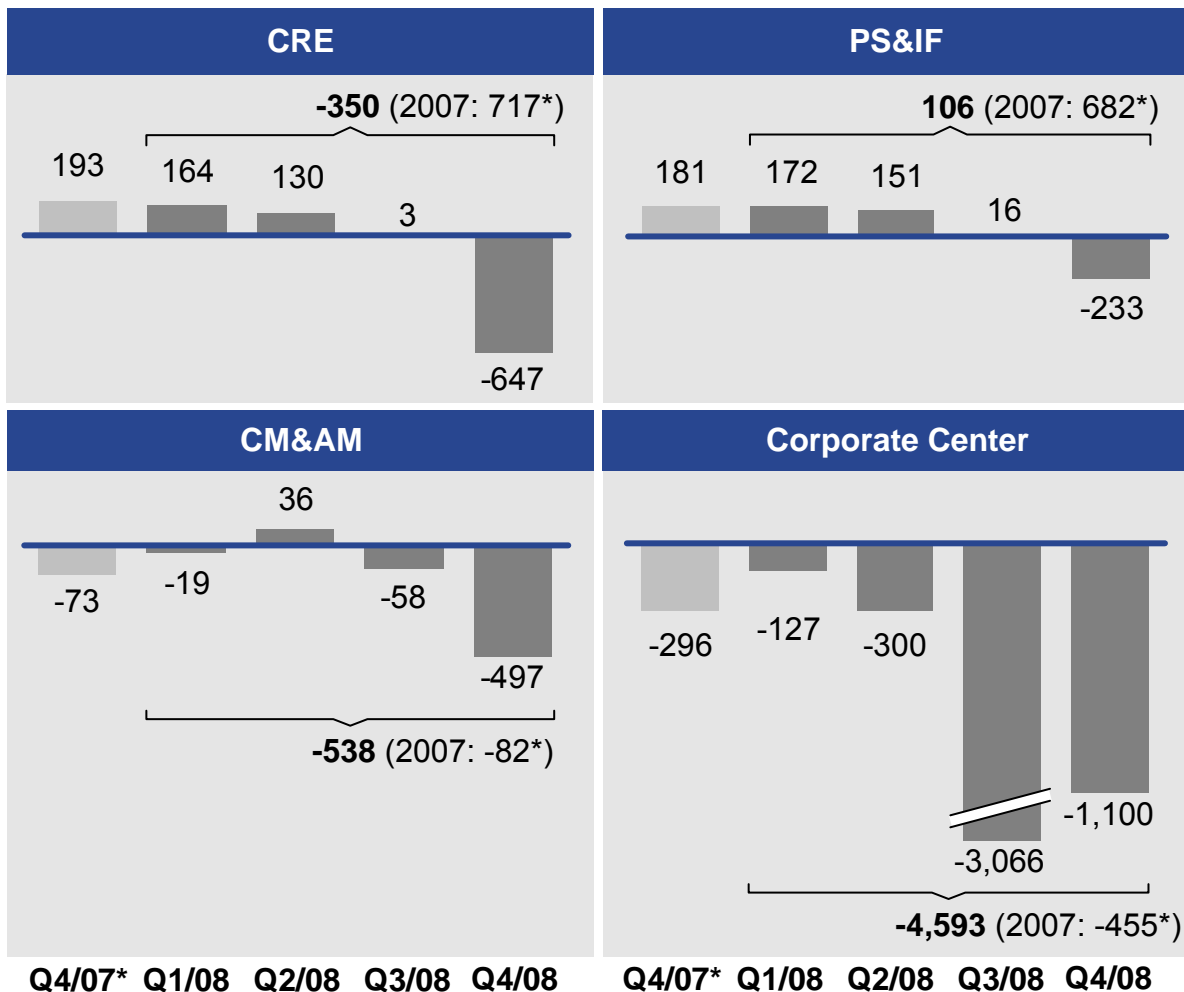
### Balance sheet

	09/2008	12/2008			Total
		CRE	PS&IF	CC	
Individual allowances	678	956	226	446	1,628
Portfolio-based allowances	264	361	210	78	649
Provisions for contingent liabilities & other commitments	9	10	0	1	11
<b>Total loan-loss provisions</b>	<b>951</b>	<b>1,327</b>	<b>436</b>	<b>525</b>	<b>2,288</b>

- ▶ **Individual loan-loss provisions** at EUR 1.6 bn as of 12/2008 with following **coverage** on problem loans:
  - ▶ CRE: 34%
  - ▶ PS&IF: 29%

# Segment performance – sharp downturn in real estate markets and further spread widening

## Pretax profit by segments EUR millions



## Comments

- ▶ **CRE** – strong increase in loan-loss provisions due to **downturn in real estate markets**
- ▶ **PS&IF** – increase in loan-loss provisions in Q4 due to **growing pressures on finances of Public Sector entities**
- ▶ **CM&AM** – **further credit spread widening**
  - ▶ Lower income from customer derivatives
  - ▶ Negative effects from market value adjustments due to counterparty risks
- ▶ **Corporate Center** – **further impairments**
  - ▶ Positive effect from non-payment of coupons on hybrid instruments and devaluation of participation certificates\*\* more than offset by
    - ▶ Impairment on DEPFA goodwill and intangibles in Q3
    - ▶ Significant impairments on structured products (CDOs, MBS)
    - ▶ Impairment on Babcock & Brown equity investment
    - ▶ Additions to restructuring provisions

\* Pro forma figures

\*\* Except DEPFA Deutsche Pfandbriefbank AG

# Portfolio overview – re-allocation of financial institutions portfolio from CRE and CM&AM into Public Sector Finance

## Portfolio overview by segments

Exposure/EaD in EUR billions, excl. intra-group exposure 12/2008

### Comments

#### ► CRE – loan portfolio stable

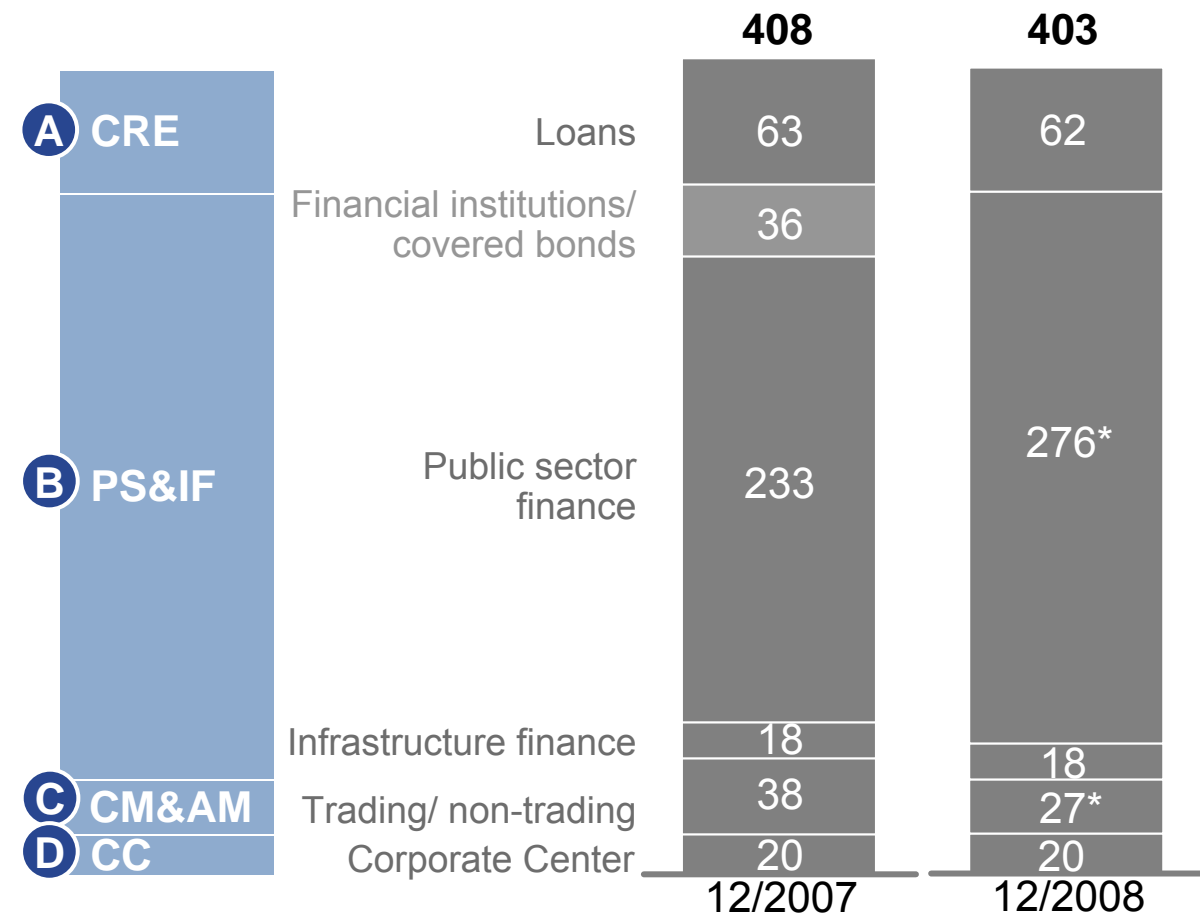
- Workout loans significantly increased in 'Hot Spots' (e.g. UK, US, Spain)
- However, total 'Hot Spot' portfolio further reduced

#### ► PS&IF – portfolio reduction of EUR 7 bn over-compensated by

- Re-allocation of financial institutions exposure from CRE (EUR 25 bn) and CM&AM (EUR 5 bn) into Public Sector Finance
- EUR 17 bn increase due to changed liquidity requirements; more conservative valuations applied to bonds used as collateral for repos and repo-related transactions
- EUR 3 bn FX effects

#### ► CM&AM – EUR 6 bn portfolio reduction, especially in the trading book. Additional EUR 5 bn reduction due to re-allocation of financial institutions exposure into Public Sector Finance

#### ► Corporate Center – exposure stable, mainly including DEPFA carry book, Pfandbriefbank ALM book, structured products in banking book and consolidated SPVs as well as small Aareal legacy retail portfolio



\* Incl. re-allocation of financial institutions exposure from CRE (EUR 25 bn) and CM&AM (EUR 5 bn) into Public Sector Finance

# Agenda

1 Financial results Q4/FY 2008

**2 SoFFin support, liquidity and capital**

3 Update management agenda and next steps

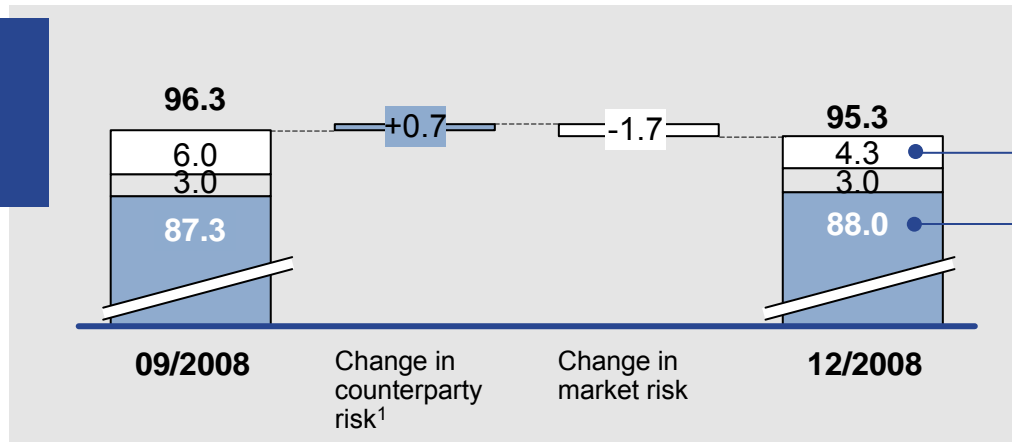
## Declaration of intent: SoFFin will implement measures to achieve a sufficient recapitalization of HRE Holding, and will prolong existing or extend further guarantees if necessary

- SoFFin to take up **20 million shares** from authorized capital ex rights, resulting in 8.7% stake
- Shares to be issued at the **minimum price** prescribed by law, which amounts to **EUR 3** for HRE Holding AG
- Full control** over HRE Holding prerequisite for recapitalization
- Further steps** will be **detailed** after the bank rescue bill has been passed into law
- Executive Management Boards of HRE Holding and HRE Bank agreed with SoFFin to take the **necessary steps** to implement the recapitalization

# Tier I ratio (SolvV) at 6.2% excluding consolidated operating losses for 2008 and before recapitalization – pro forma Tier I ratio at 3.4%

## RWA EUR billions

- Market risk
- Operational risk
- Counterparty risk



► Market risk down as **trading assets** have been further **reduced** and partly re-classified into the bank book

## Tier I capital EUR billions (HGB/ German GAAP)

- Core Tier I
- Hybrid capital



► **Tier I capital** (SolvV) as of 12/2008 **excludes consolidated operating loss** for 2008 – **Tier I ratio** (SolvV) at 6.2%

► **Including consolidated operating loss** for 2008, **Tier I ratio** (SolvV) would be at 3.4% (pro forma)

## Tier I ratio<sup>2,3</sup> (SolvV)



► **Declaration of intent** from **SoFFin** to implement measures to achieve a **sufficient recapitalization** of HRE Holding

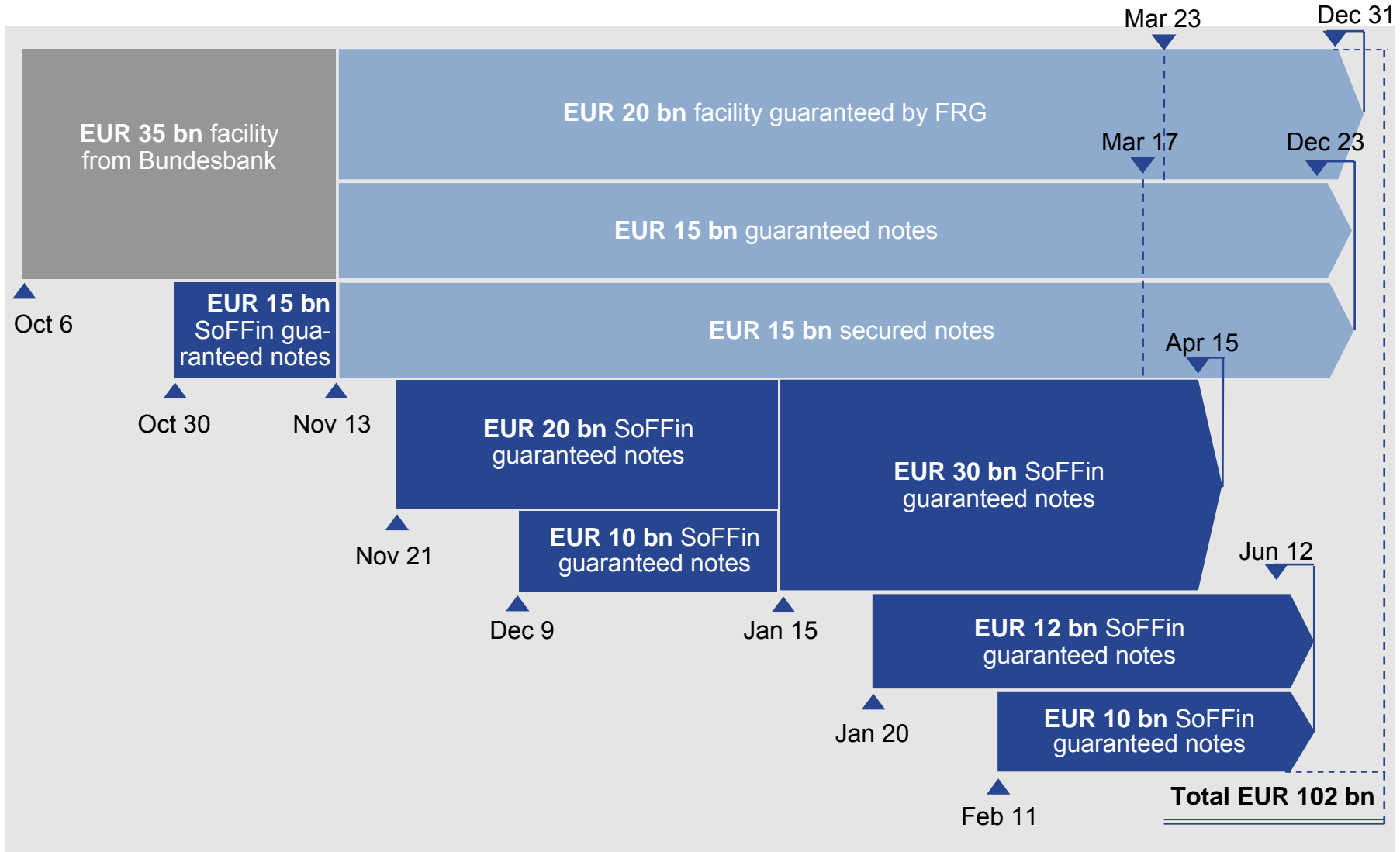
1 Incl. rating downgrades, transfer of REITs to standard approach, and FX rate effects  
2 Before approved annual financial statements and before profit distribution

3 Based on counterparty, operational, and market risk  
4 After approved annual financial statements and after profit distribution

# External support essential to meet liquidity needs

EUR billions

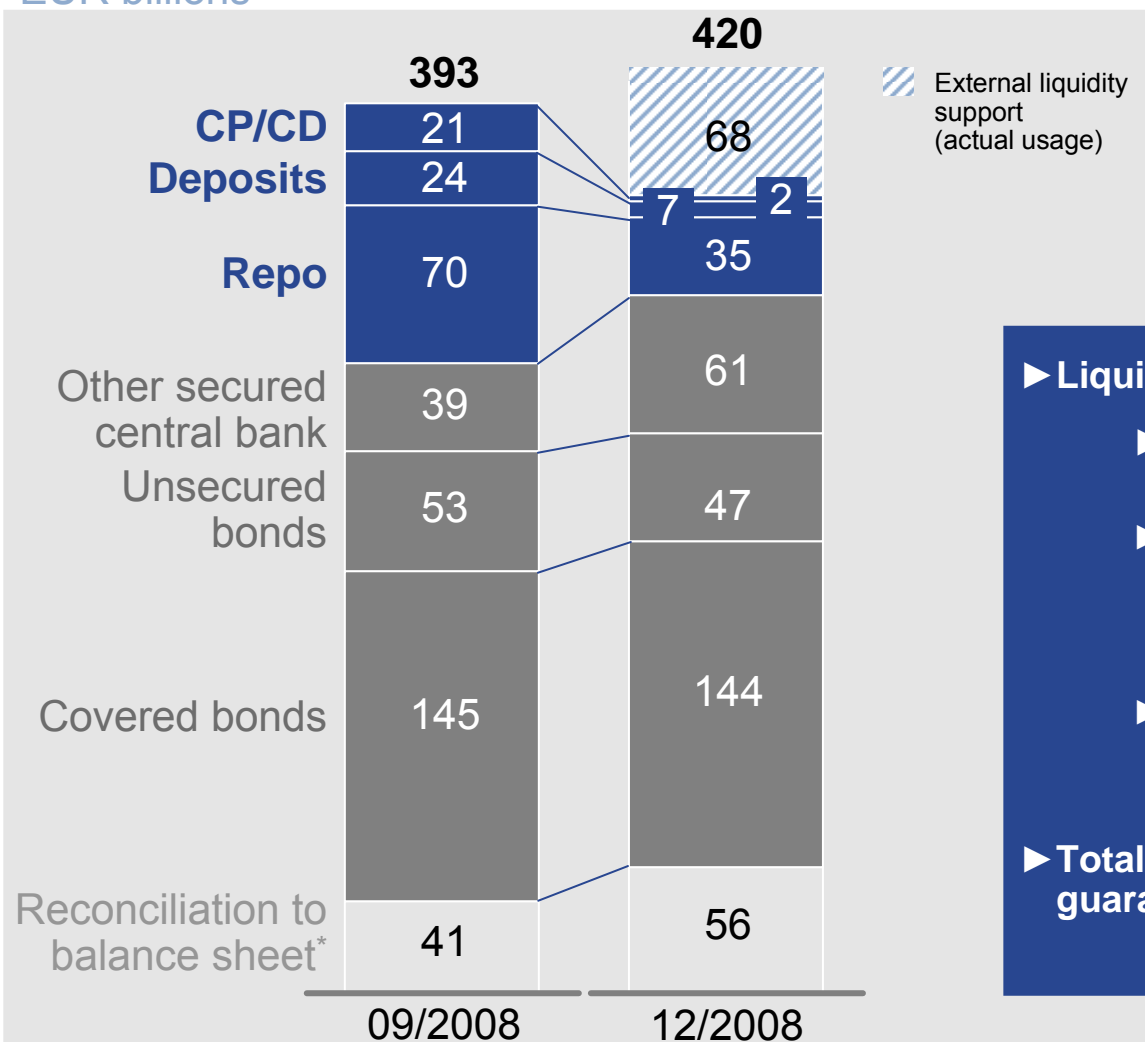
■ Bundesbank ■ Financial consortium ■ SoFFin guaranteed



# Further deterioration of capital markets triggered additional liquidity needs

## Hypo Real Estate Group – Liability profile

EUR billions



### ► Liquidity needs are driven by

- Repayment of CP/CD, deposits and unsecured bonds
- Additional collateralization (higher haircuts) in favor of other market participants, central banks and investors
- Higher over-collateralization, rating agencies require for covered bonds (Pfandbriefe)

► **Total external liquidity support and guarantees** currently EUR 102 bn

# Agenda

1 Financial results Q4/FY 2008

2 SoFFin support, liquidity and capital

**3 Update management agenda and next steps**

# Management agenda – status update

## Status

### Stabilize the company

- ▶ **Declaration of intent** from **SoFFin**: SoFFin will implement measures to achieve a **sufficient recapitalization** of HRE Holding, and will prolong existing or extend **further guarantees** if necessary
- ▶ **Total external liquidity support** and guarantees currently **EUR 102 bn**

### Define strategy and business model

- ▶ **Overall strategy defined**, focus on **Real Estate** and **Public Sector Finance** in Germany and Europe, funded through **Pfandbrief** issuance
- ▶ **Repositioning started: sale of non-core businesses** (sale of Collineo and DEPFA First Albany closed) and first **locations to be closed** by end of April
- ▶ Around half of planned **staff reduction** for 2009 already agreed upon or initiated

### Review organization and corporate governance

- ▶ **Organizational structure simplified** and **committee structure redesigned**
- ▶ Projects to implement **simplification of legal structure** initiated (e.g. **Merger of DEPFA Deutsche Pfandbriefbank** into HRE Bank)

### Management team

- ▶ **New CRO appointed**, CFO and Board member for Real Estate Finance to be nominated
- ▶ **2<sup>nd</sup> level management** in place after **management appraisal process**

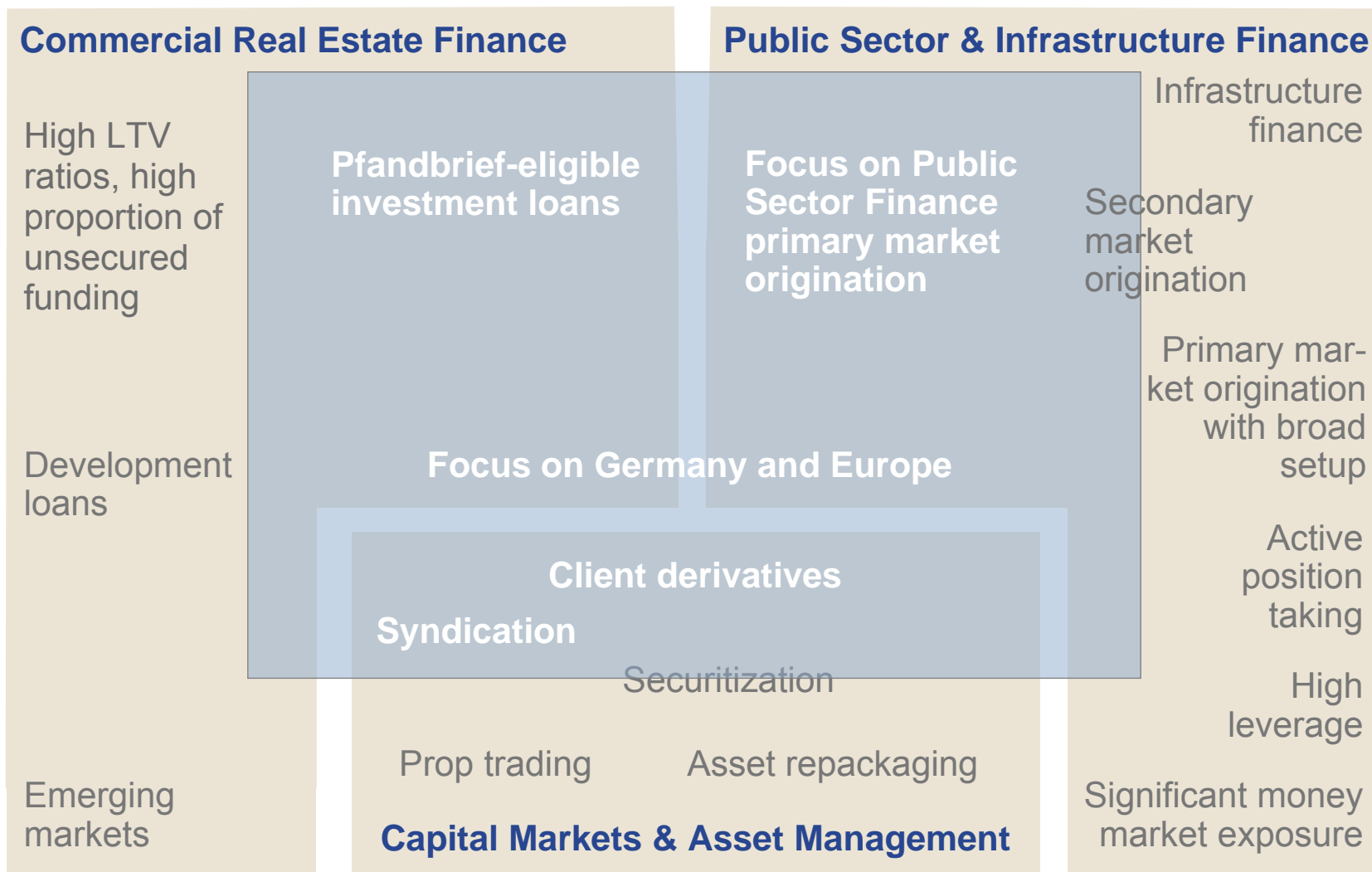
### Conduct risk and portfolio review

- ▶ **"Hot Spots" in CRE** (e.g. US, UK, Spain, Emerging Markets) and **PF&IF** (e.g. CDS, Emerging Markets, student loans) **identified** and **reduction** of risk exposures continuing
- ▶ **Global workout unit** currently being established
- ▶ **Segmentation of portfolio** into strategic and value maximization parts ongoing

# Core of HRE's previous business model forms cornerstones of "New Bank"

SIMPLIFIED

☐ "New Bank"



# Next steps

## Immediate actions

- ▶ Submission of restructuring plan to **European Commission** to achieve **approval for Government support**
- ▶ Further steps for **SoFFin support** will be detailed after the bank rescue bill has been passed into law
- ▶ Closure of **5 locations** by end of April
- ▶ Continuing development of group-wide **restructuring measures** to implement targeted **lean setup**

## Mid-term

- ▶ **Merger** DEPFA Deutsche Pfandbriefbank AG into HRE Bank AG
- ▶ Closure of further **11 locations** by end of 2009
- ▶ Implementation of an **IT and process optimization program** to **consolidate** the fragmented **IT landscape**
- ▶ Selective **outsourcing**, e.g. IT infrastructure
- ▶ **Controlled reduction** of non-strategic **portfolios** in the Public Sector
- ▶ **Discontinuation** and controlled reduction of **Infrastructure Finance** as well as **Capital Markets** and **Trading Business**
- ▶ **Optimization** of **cover pools**

# Financial Calendar 2009



29 April 2009      Annual Report 2008

05 May 2009      Q1 Results 2009

07 August 2009      Q2 Results 2009

13 August 2009      Annual General Meeting

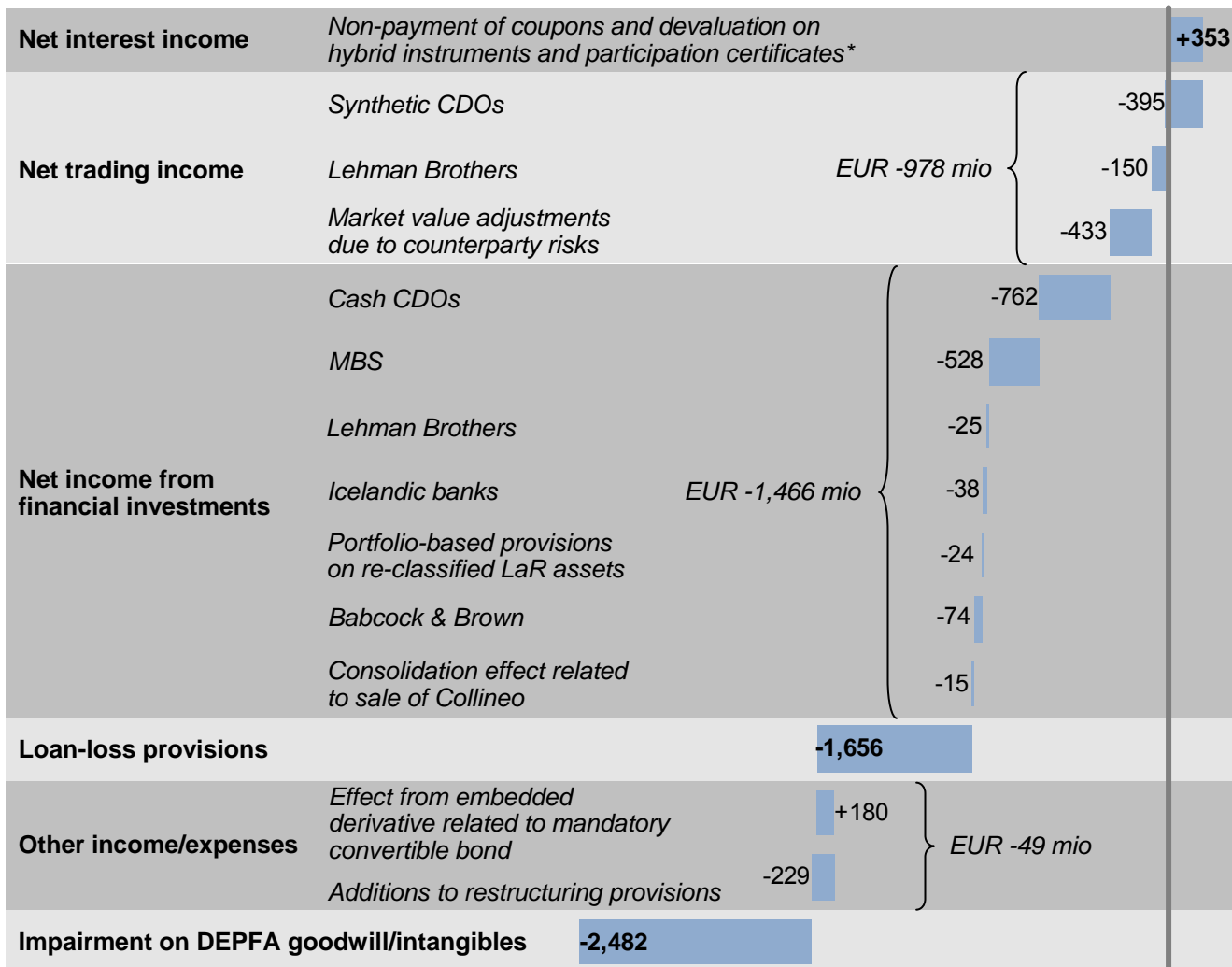
11 November 2009      Q3 Results 2009

## Financial results Q4/FY 2008

Portfolio overview

Ratings

# Key effects by P&L line (FY 2008) – crisis highly visible in net trading income, net income from financial investments as well as loan-loss provisions



- ▶ **Net trading income** and **net income from financial investments** much affected by
  - ▶ Credit spread widening and deterioration of quality of collateral pool backing structured products (CDOs, MBS)
  - ▶ Write-downs related to Lehman
  - ▶ Market value adjustments due to counterparty risks
- ▶ **Total coverage on structured products** now at 38%; remaining exposure EUR 3,726 mio
  - ▶ **Synthetic CDOs** covered by 72%; remaining exposure EUR 224 mio
  - ▶ **Cash CDOs** covered by 60%; remaining exposure EUR 789 mio
  - ▶ **MBS** covered by 18%; remaining exposure of EUR 2,713 mio
- ▶ **Additions to restructuring provisions** relate to staff cutbacks, location closures and consulting fees

# Hypo Real Estate Group

## Quarterly financial overview

Condensed P&L							
EUR millions	Q4 2007 <sup>1</sup>	FY 2007 <sup>1</sup>	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008
<b>Operating revenues</b>	<b>33</b>	<b>1,463</b>	<b>184</b>	<b>236</b>	<b>-345</b>	<b>-660</b>	<b>-585</b>
<i>Net interest and similar income</i>	440	1,471	299	304	354	676	1,633
<i>Net commission income</i>	56	234	35	34	35	-72	32
<i>Net trading income</i>	-252	-274	-98	12	-349	-574	-1,009
<i>Thereof: Synthetic CDOs</i>	-198	-198	-87	-19	-112	-177	-395
<i>Thereof: Lehman Brothers</i>	0	0	0	0	-150	0	-150
<i>Thereof: Market value adjustment due to counterparty risks</i>	0	0	0	0	-117	-316	-433
<i>Net income from financial investments</i>	-206	6	-29	-135	-364	-881	-1,409
<i>Thereof: Cash CDOs</i>	-264	-268	-88	-126 <sup>2</sup>	-195	-353	-762
<i>Thereof: MBS</i>	0	0	0	0	-4	-524	-528
<i>Net income from hedge relationships</i>	-1	11	-19	15	-30	120	86
<i>Balance of other operating income/expenses</i>	-4	15	-4	6	9	71	82
Provisions for losses on loans and advances	142	61	-33	-37	-177	-1,409	-1,656
General administrative expenses	-164	-656	-145	-160	-119	-181	-605
Impairment on DEPFA goodwill <sup>3</sup>	0	0	0	0	-2,482	0	-2,482
Balance of other income/expenses	-6	-6	184	-22	18	-227	-47
<i>Thereof: MCB<sup>4</sup></i>	0	0	184	-23	19	0	180
<i>Thereof: Additions to restructuring provisions</i>	-27	-27	0	0	0	-229	-229
<b>Pretax profit</b>	<b>5</b>	<b>862</b>	<b>190</b>	<b>17</b>	<b>-3,105</b>	<b>-2,477</b>	<b>-5,375</b>
Key financials							
EUR billions							
RWA	101.0	101.0	92.7 <sup>5</sup>	90.6 <sup>5</sup>	96.3 <sup>5</sup>	95.3 <sup>5,6</sup>	95.3 <sup>5,6</sup>
Tier I capital	7.1	7.1	7.3	7.4	6.6	5.9 <sup>6</sup>	5.9 <sup>6</sup>

1 Pro-forma figures

2 Net of EUR 70 mio model reserve used

3 Incl. other intangibles

4 Effect from embedded derivative relating to the mandatory convertible bond

5 Basle II, incl. operational and market risk

6 Before approved annual financial statements and profit distribution

Preliminary Results 2008, March 30, 2009

# Commercial Real Estate Finance

## Quarterly financial overview

<b>Condensed P&amp;L</b>							
EUR millions	Q4 2007 <sup>1</sup>	FY 2007 <sup>1</sup>	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008
<b>Operating revenues</b>	<b>245</b>	<b>963</b>	<b>231</b>	<b>200</b>	<b>226</b>	<b>219</b>	<b>876</b>
I <i>Net interest and similar income</i>	202	760	194	188	187	187	756
I <i>Net commission income</i>	26	152	21	20	26	28	95
I <i>Net trading income</i>	-1	2	-11	-8	-1	-25	-45
I <i>Thereof: Market value adjustment due to counterparty risks</i>	0	0	0	0	0	-24	-24
I <i>Net income from financial investments</i>	15	36	23	0	17	18	58
I <i>Net income from hedge relationships</i>	2	6	0	0	0	0	0
I <i>Balance of other operating income/expenses</i>	1	7	4	0	-3	11	12
Provisions for losses on loans and advances	-15	-66	-23	-25	-179	-839	-1,066
General administrative expenses	-37	-180	-44	-45	-44	-22	-155
Balance of other income/expenses	0	0	0	0	0	-5	-5
<b>Pretax profit</b>	<b>193</b>	<b>717</b>	<b>164</b>	<b>130</b>	<b>3</b>	<b>-647</b>	<b>-350</b>
<b>Key financials</b>							
EUR billions							
RWA	50.1	50.1	35.5 <sup>2</sup>	28.2 <sup>2</sup>	30.1 <sup>2</sup>	26.9 <sup>2,3</sup>	26.9 <sup>2,3</sup>

1 Pro-forma figures

2 Basle II, incl. market risk

3 Before approved annual financial statements and profit distribution

# Public Sector & Infrastructure Finance

## Quarterly financial overview

<b>Condensed P&amp;L</b>							
EUR millions	Q4 2007 <sup>1</sup>	FY 2007 <sup>1</sup>	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008
<b>Operating revenues</b>	<b>222</b>	<b>834</b>	<b>204</b>	<b>184</b>	<b>41</b>	<b>180</b>	<b>609</b>
I <i>Net interest and similar income</i>	158	579	157	179	189	205	730
I <i>Net commission income</i>	15	43	7	11	6	-63	-39
I <i>Net trading income</i>	13	-18	34	-6	-142	-10	-124
I <i>Thereof: Lehman Brothers</i>	0	0	0	0	-120	0	-120
I <i>Net income from financial investments</i>	33	205	2	0	6	5	13
I <i>Net income from hedge relationships</i>	8	29	4	0	-18	40	26
I <i>Balance of other operating income/expenses</i>	-5	-4	0	0	0	3	3
Provisions for losses on loans and advances	1	0	0	0	0	-420	-420
General administrative expenses	-42	-152	-32	-33	-25	15	75
Balance of other income/expenses	0	0	0	0	0	-8	-8
<b>Pretax profit</b>	<b>181</b>	<b>682</b>	<b>172</b>	<b>151</b>	<b>16</b>	<b>-233</b>	<b>106</b>
<b>Key financials</b>							
EUR billions							
RWA	38.3	38.3	38.8 <sup>2</sup>	38.6 <sup>2</sup>	39.1 <sup>2</sup>	41.1 <sup>2,3</sup>	41.1 <sup>2,3</sup>

1 Pro-forma figures

2 Basle II, incl. market risk

3 Before approved annual financial statements and profit distribution

# Capital Markets & Asset Management

## Quarterly financial overview

<b>Condensed P&amp;L</b>							
EUR millions	Q4 2007 <sup>1</sup>	FY 2007 <sup>1</sup>	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008
<b>Operating revenues</b>	<b>-43</b>	<b>19</b>	<b>3</b>	<b>56</b>	<b>-43</b>	<b>-522</b>	<b>-506</b>
I <i>Net interest and similar income</i>	27	85	11	10	35	17	73
I <i>Net commission income</i>	13	44	9	4	4	-12	5
I <i>Net trading income</i>	-64	-63	-41	50	-83	-444	-518
I <i>Thereof: Lehman Brothers</i>	0	0	0	0	-24	0	-24
I <i>Thereof: Market value adjustments due to counterparty risks</i>	0	0	0	0	-117	-292	-409
I <i>Net income from financial investments</i>	-8	-23	24	-4	1	-82	-61
I <i>Net income from hedge relationships</i>	-11	-24	0	-4	0	-1	-5
I <i>Balance of other operating income/expenses</i>	0	0	0	0	0	0	0
Provisions for losses on loans and advances	0	-1	0	0	0	0	0
General administrative expenses	-30	-100	-22	-20	-15	25	-32
Balance of other income/expenses	0	0	0	0	0	0	0
<b>Pretax profit</b>	<b>-73</b>	<b>-82</b>	<b>-19</b>	<b>36</b>	<b>-58</b>	<b>-497</b>	<b>-538</b>
<b>Key financials</b>							
EUR billions							
RWA	2.5	2.5	7.4 <sup>2</sup>	6.7 <sup>2</sup>	8.9 <sup>2</sup>	10.7 <sup>2,3</sup>	10.7 <sup>2,3</sup>

1 Pro-forma figures

2 Basle II, incl. market risk

3 Before approved annual financial statements and profit distribution

# Corporate Center

## Quarterly financial overview

Condensed P&L							
EUR millions	Q4 2007 <sup>1</sup>	FY 2007 <sup>1</sup>	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY 2008
<b>Operating revenues</b>	<b>-391</b>	<b>-353</b>	<b>-254</b>	<b>-204</b>	<b>-569</b>	<b>-537</b>	<b>-1,564</b>
<i>Net interest and similar income</i>	53	47	-63	-73	-57	267	74
<i>Net commission income</i>	2	-5	-2	-1	-1	-25	-29
<i>Net trading income</i>	-200	-195	-80	-24	-123	-95	-322
<i>Thereof: Synthetic CDOs</i>	-198	-198	-87	-19	-112	-177	-395
<i>Thereof: Lehman Brothers</i>	0	0	0	0	-6	0	-6
<i>Net income from financial investments</i>	-246	-212	-78	-131	-388	-822	-1,419
<i>Thereof: Cash CDOs</i>	-264	-268	-88	-126 <sup>2</sup>	-195	-353	-762
<i>Thereof: MBS</i>	0	0	0	0	-4	-524	-528
<i>Net income from hedge relationships</i>	0	0	-23	19	-12	81	65
<i>Balance of other operating income/expenses</i>	0	12	-8	6	12	57	67
Provisions for losses on loans and advances	156	128	-10	-12	2	-150	-170
General administrative expenses	-55	-224	-47	-62	-35	-199	-343
Impairment on DEPFA goodwill <sup>3</sup>	0	0	0	0	-2,482	0	-2,482
Balance of other income/expenses	-6	-6	184	-22	18	-214	-34
<i>Thereof: MCB<sup>4</sup></i>	0	0	184	-23	19	0	180
<i>Thereof: Additions to restructuring provisions</i>	-27	-27	0	0	0	-229	-229
<b>Pretax profit</b>	<b>-296</b>	<b>-455</b>	<b>-127</b>	<b>-300</b>	<b>-3,066</b>	<b>-1,100</b>	<b>-4,593</b>
Key financials							
EUR billions							
RWA	10.1	10.1	8.1 <sup>5</sup>	14.2 <sup>5</sup>	15.2 <sup>5</sup>	16.6 <sup>5,6</sup>	16.6 <sup>5,6</sup>

1 Pro-forma figures

2 Net of EUR 70 mio model reserve used

3 Incl. other intangibles

4 Effect from embedded derivative relating to the mandatory convertible bond

5 Basle II, incl. operational and market risk; increase vs. Q1 mainly due to 1250% risk-weighting of CDOs based on German book values

6 Before approved annual financial statements and profit distribution

Financial results Q4/FY 2008

**Portfolio overview**

Ratings

# Hypo Real Estate Group

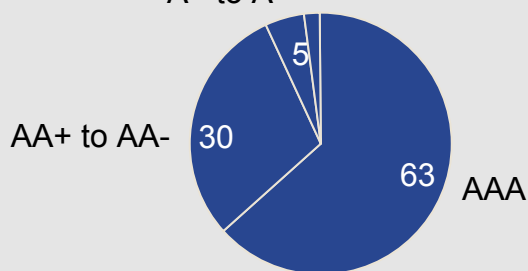
## Rating structure by segments

EaD/Exposure per 12/2008 in %

### Group portfolio by country rating

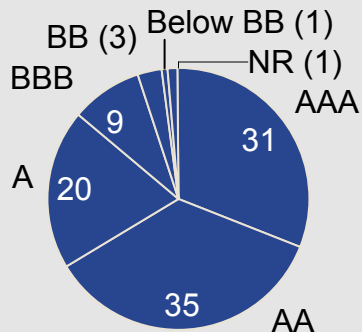
100% = EUR 403 bn

A+ to A- BBB and below (2)



### Group portfolio by internal rating\*\* of counterparties

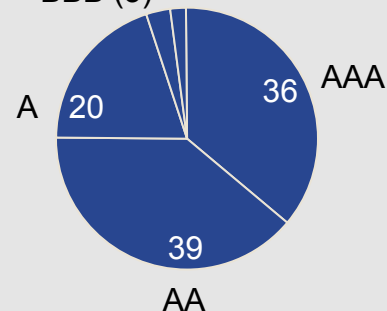
100% = EUR 403 bn



### Public Sector & Infrastructure Finance\* Portfolio by internal rating\*\* of counterparties

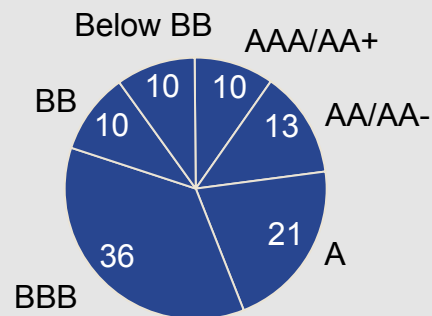
100% = EUR 294 bn

BBB (3) Non-investment grade (2)



### Commercial Real Estate loans Portfolio by internal rating\*\* of counterparties

100% = EUR 62 bn



\* Incl. re-allocation of financial institutions exposure from CRE and CM&AM into Public Sector Finance

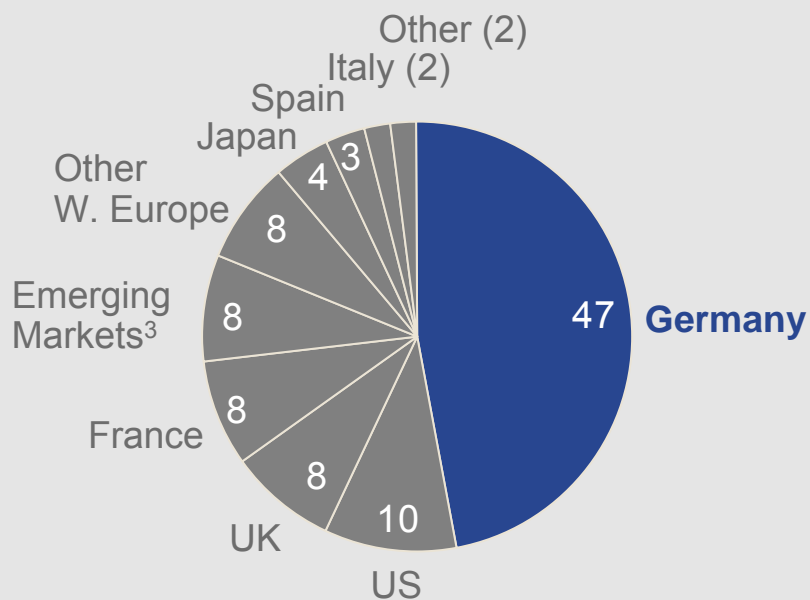
\*\* PS&IF: based on PDs and transformed into external S&P rating structure  
CRE: based on EL (PDs x LGDs) and transformed into external S&P rating structure

# A Commercial Real Estate Finance

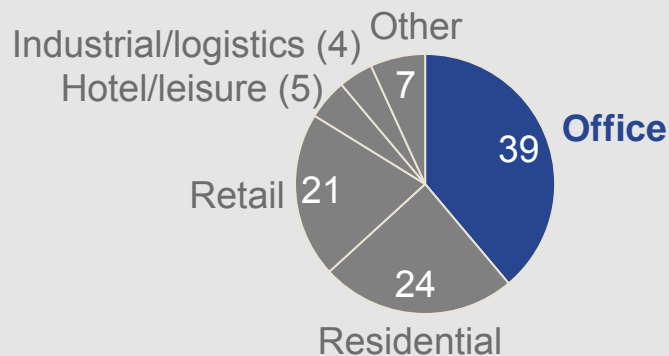
Portfolio dominated by German real estate business (47%)

EaD per 12/2008 – 100% = EUR 62 bn

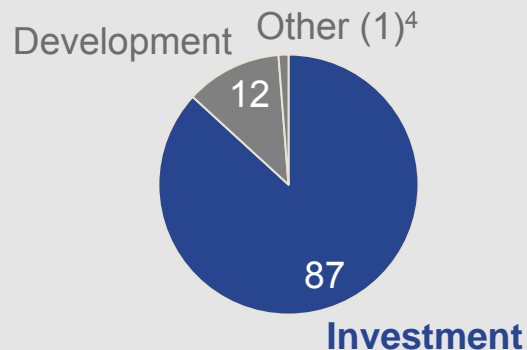
Portfolio by region<sup>1</sup>



Portfolio by asset class<sup>2</sup>



Portfolio by product<sup>2</sup>



1 Location of property

2 Excl. client derivatives of EUR ~1 bn

3 According to IMF definition

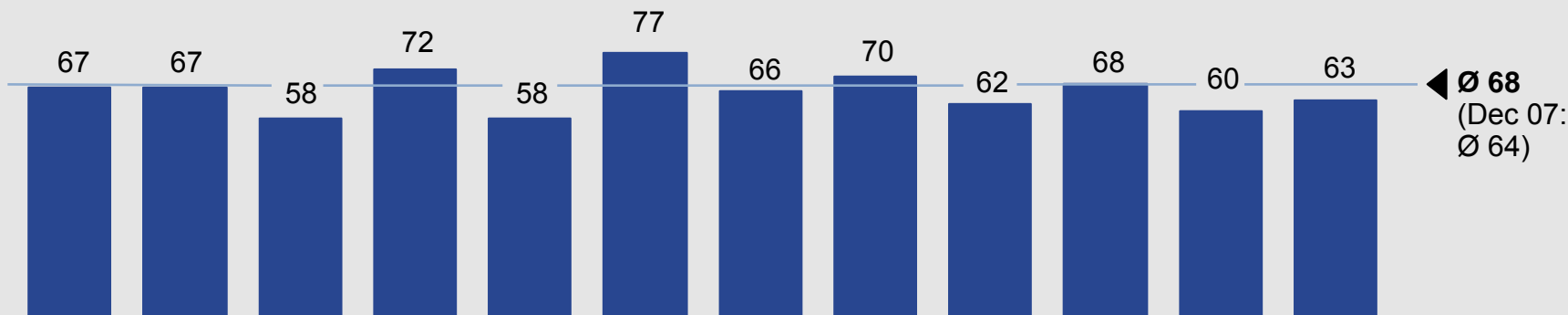
4 Corporate loans, REITs, guarantees, LCs, VAT bridge finance, and bonds

# A Commercial Real Estate Finance

## Overview layered loan-to-value (LTV) and interest-service-coverage (ISC) ratios Percent (%)

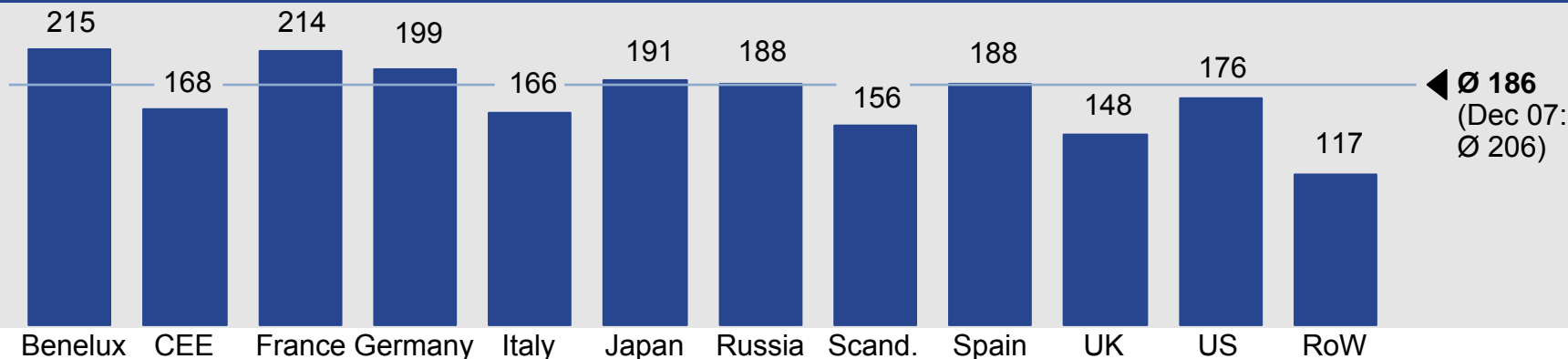
### LTV<sup>1,2</sup> – regional structure

Commitment as of 12/2008: EUR 48 bn



### ISC<sup>1,3</sup> – regional structure

Commitment as of 12/2008: EUR 40 bn



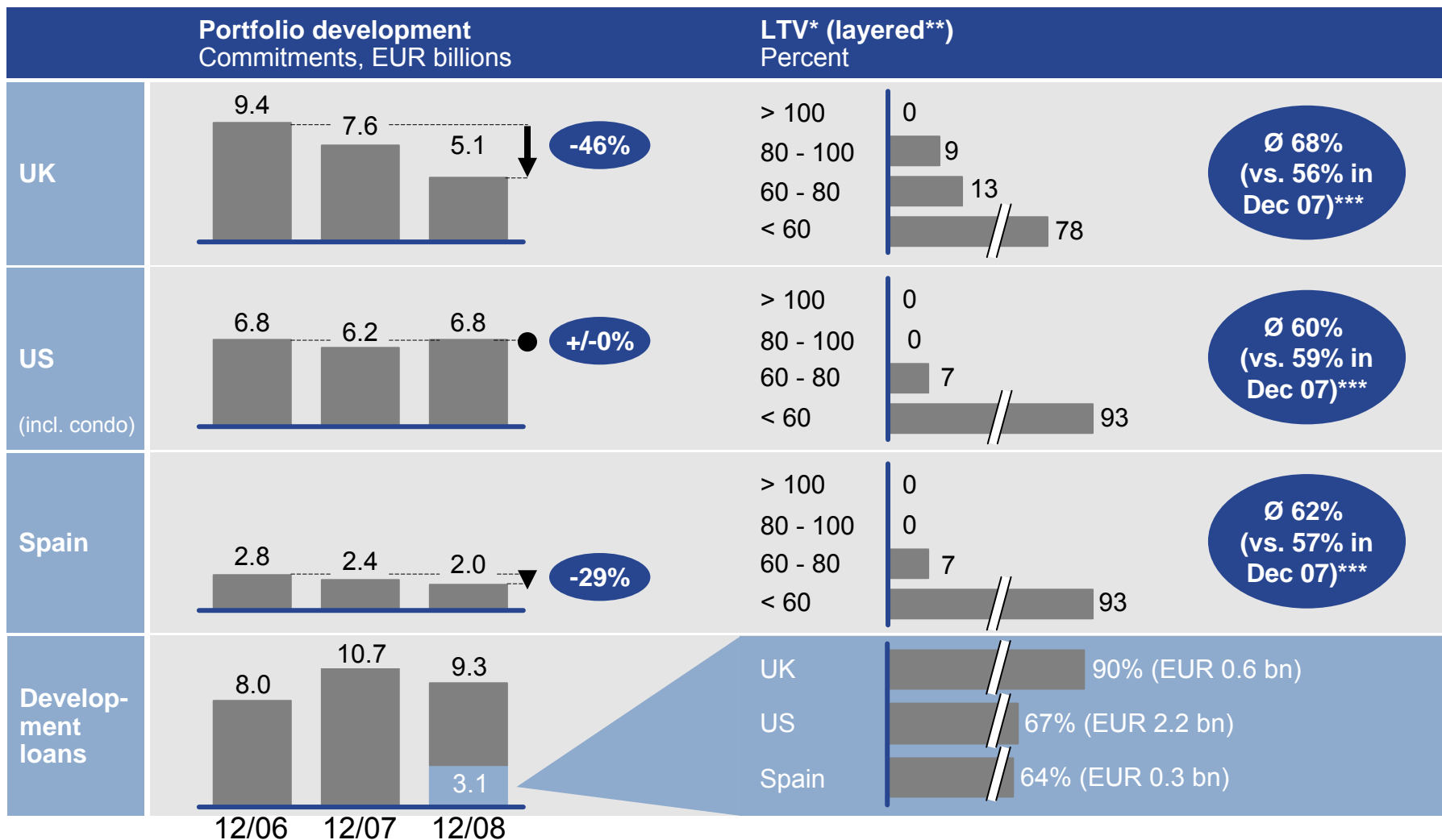
1 Internal unaudited figures; no standardized day-to-day update

2 Deals are virtually layered in different LTV classes; excl. guarantees/letters of credit, bridge finance, corporate loans, fully undrawn loans and unsecured loans; excl. NSP and problem loans

3 Excl. guarantees/letters of credit, bridge finance, corporate loans, fully undrawn loans, unsecured loans, developments/constructions and owner-used properties; excl. NSP and problem loans

# A Commercial Real Estate Finance

## Overview 'Hot Spot' portfolios



\* Internal unaudited figures; no standardized day-to-day update

\*\*\* Average LTVs not layered

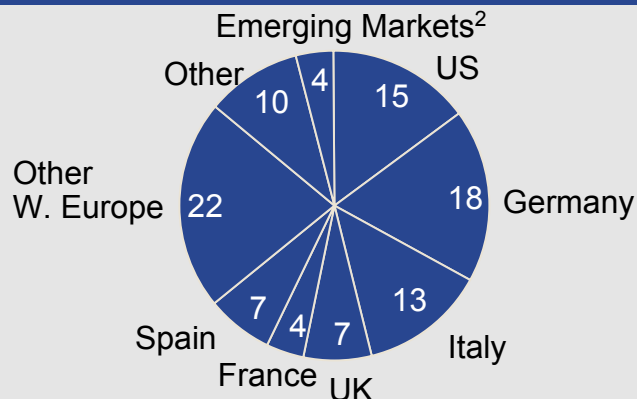
\*\* Deals are virtually layered in different LTV classes; excl. guarantees/letters of credit, bridge finance, corporate loans, fully undrawn loans

## B Public Sector & Infrastructure Finance

Portfolio size, structure, and quality is stable and mostly tax-backed

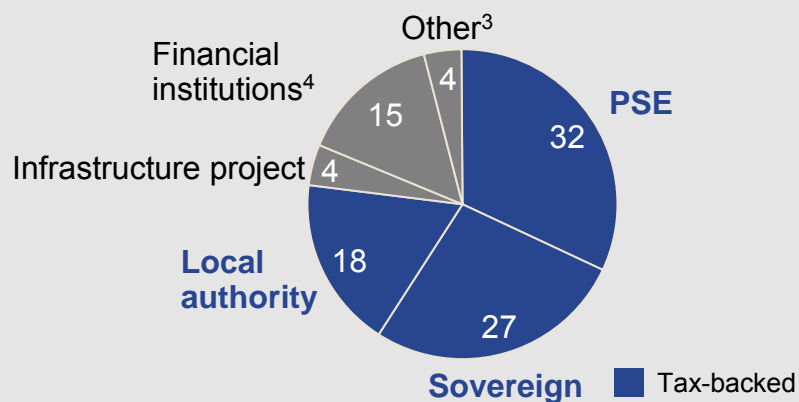
Exposure per 12/2008 – 100% = EUR 294 bn<sup>1</sup>; percent (%)

### Portfolio by region



- ▶ Regionally diversified portfolio in over 50 countries
- ▶ European exposure stable at 71% with focus on Germany and Italy
- ▶ US portfolio decreased to 15% (12/2007: 20%) with more than 2/3 public sector counterparties

### Portfolio by counterparty type



- ▶ The traditional core tax-backed business accounts for 77% of exposure (12/2007: 75%)
- ▶ PSE includes EUR 17 bn FFELP student loans, which are at least 97% US-state guaranteed

1 Incl. re-allocation of financial institutions exposure from CRE (EUR 25 bn) and CM&AM (€ 5 bn) into Public Sector Finance  
2 According to IMF definition

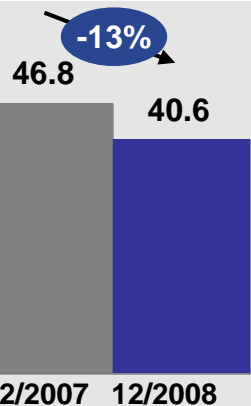
3 Incl. Government-related companies (EUR 8 bn) and corporates (EUR 1 bn)

4 Incl. Government-related financial institutions (EUR 2 bn)

# B Public Sector Finance

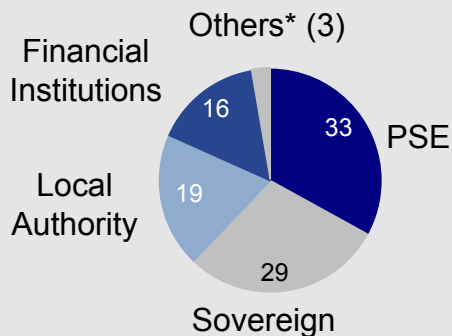
## Overview 'Hot Spot' portfolios

**Portfolio development**  
EaD, EUR billions

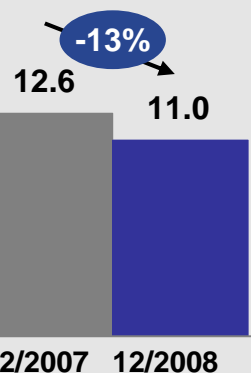
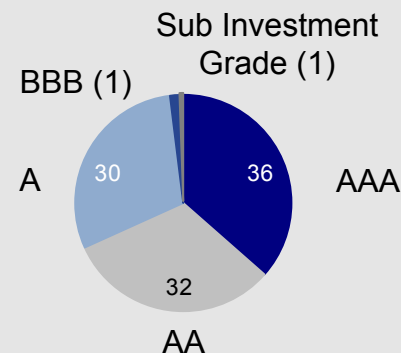


US

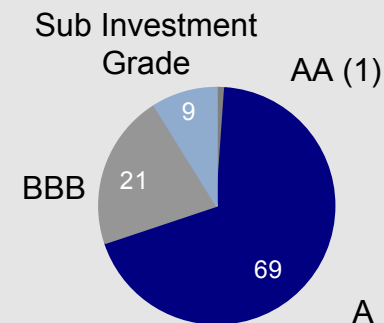
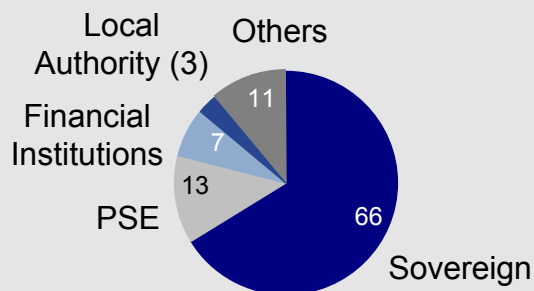
**Portfolio by counterparty**  
Percent



**Portfolio by rating**  
Percent



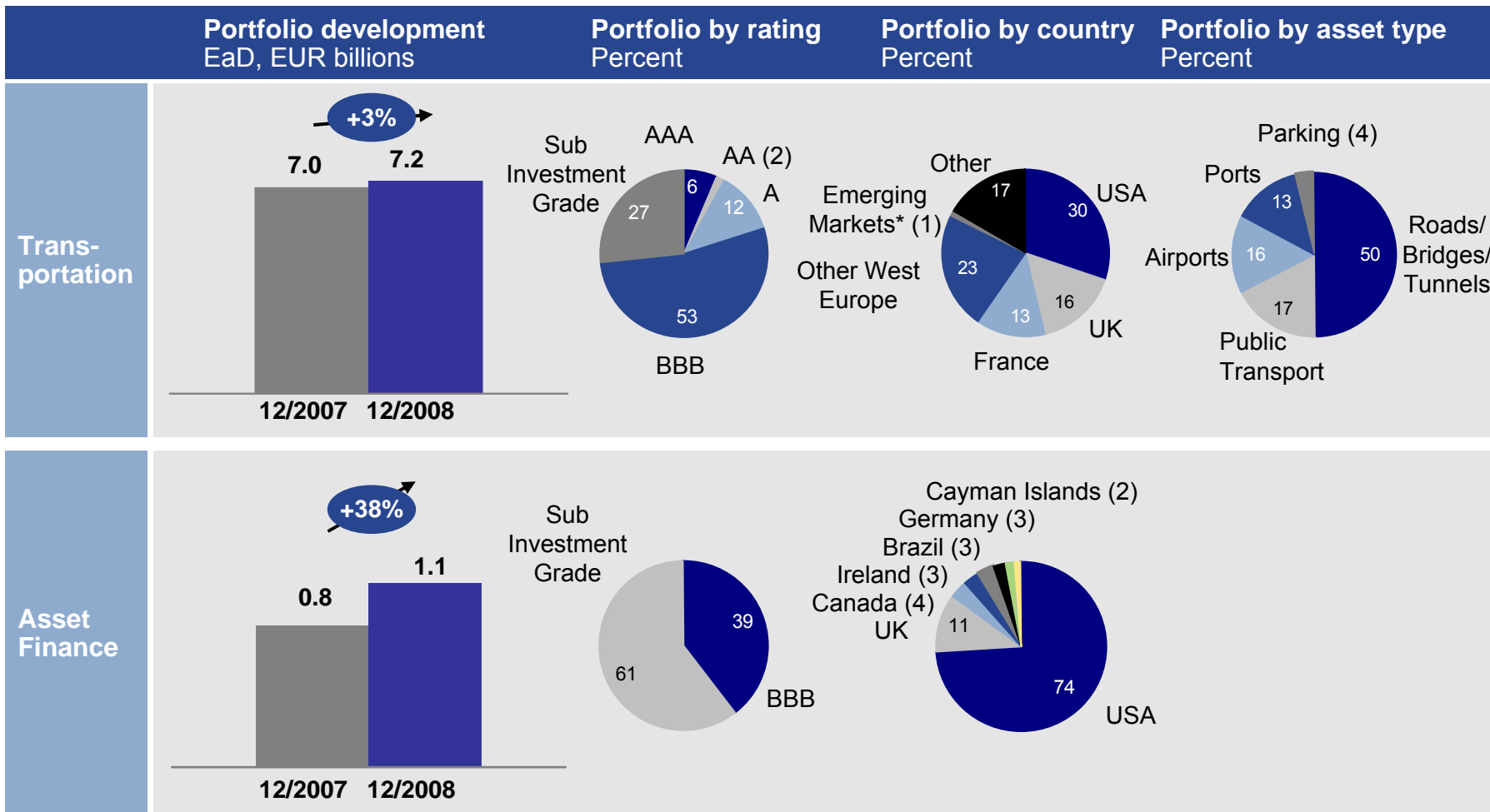
Emerging Markets\*\*



\* Incl. Government-related companies (EUR 4.14 bn), Government-related institutions (EUR 1.94 bn), and corporate (EUR 216 mio)

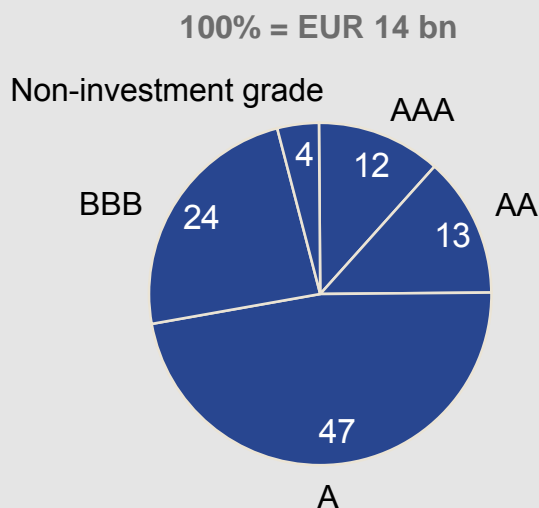
# B Infrastructure Finance

## Overview 'Hot Spot' portfolios



## Monoline exposure – underlying of the wrapped exposure shows an average A rating EUR billions

### Monoline wrapped exposure by rating 12/2008 in %



- ▶ In principle **credit decisions** have been based on the **underlying assets**
- ▶ The **monoline wrapped exposure** accounts for 5% of the total PS&IF portfolio
  - ▶ Local Authority and PSE account for 52% of the portfolio, Government-related institutions and corporates 28%, Infrastructure projects 21%
  - ▶ Average quality of the total DEPFA book would remain Aa2 even if all Monoline wrap was removed

# Hypo Real Estate Group – significant increase of problem loans

## Problem and watchlist loans<sup>1</sup>

EUR millions

	12/2007	09/2008	12/2008	in % of relevant Portfolio <sup>3</sup>
<b>Total problem loans</b>	<b>1,729</b>	<b>2,226</b>	<b>4,979</b>	<b>1.24<sup>4</sup></b>
<b>Workout loans</b>	<b>1,155</b>	<b>1,539</b>	<b>3,982</b>	<b>0.99<sup>4</sup></b>
I CRE Germany	1,050	976	1,272	4.39
I CRE International	98	486	2,451	7.43
I US	74	165	557	
I UK	0	146	584	
I Spain	24	99	809	
I Scandinavia	0	76	75	
I PS&IF	7	77	259	0.09
I Lehman Brothers	0	30	70	
I Icelandic Banks	0	40	59	
<b>Restructuring loans</b>	<b>574</b>	<b>687</b>	<b>997</b>	<b>0.25<sup>4</sup></b>
I CRE Germany	402	366	274	0.94
I CRE International	171	271	221	0.67
I US	0	0	0	
I UK	93	82	0	
I Spain	76	2	36	
I Scandinavia	0	184	166	
I PS&IF	1	50 <sup>2</sup>	502	0.17
I Student Loans	0	0	376	
<b>Total watchlist loans</b>	<b>862</b>	<b>2,168</b>	<b>1,238</b>	<b>0.31<sup>4</sup></b>

No signs that the deal will recover soon, compulsory measures necessary

Payments overdue more than 90 days or other criteria acc. to respective policy

Payments overdue more than 30 days or other criteria acc. to respective policy

1 Based on commitments, excl. interest and costs; foreign currency deals according to exchange rates of the ECB fixing

2 Incl. 2 transactions (EUR 49 mio) with retained payments which are due to outstanding legal issues (workout in 12/2008)

3 CRE Germany EUR 29 bn, CRE International EUR 33 bn, PS&IF EUR 294 bn

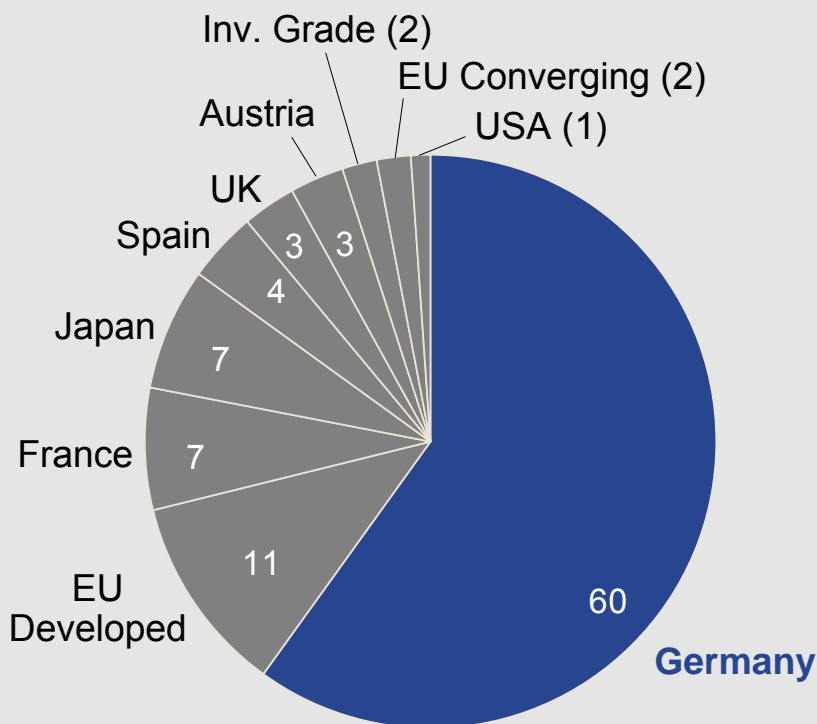
4 Total Group portfolio EUR 403 bn

## D Corporate Center

### Run-off book (legacy carry trades)

12/2008 – 100% = EUR 12 bn; percent (%)

#### Portfolio by region

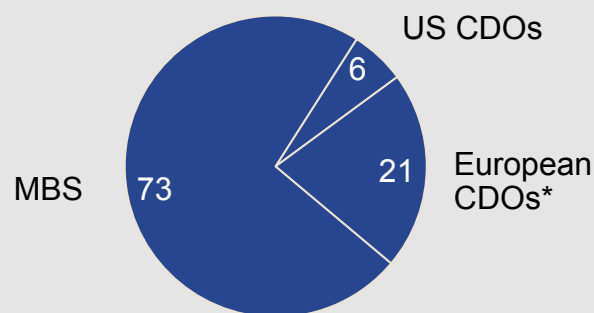


- ▶ Run-off book (legacy carry trades) are mainly cash positions including
  - ▶ EUR 5.8 bn “Schuldscheindarlehen” German sub-sovereigns (“Bundesländer”)
  - ▶ EUR 6.3 bn MTN on financial institutions and public sector counterparties with an average rating of AA+ (lowest rating BBB+)

## Structured products – overview

### Structured products in bank book 12/2008 in %

100% = EUR 3.7 bn remaining exposure



EUR millions	12/2008			Coverage ratio**
	Notional	Remaining exposure	Fair value	
<b>Synthetic CDOs</b>	<b>794</b>	<b>224</b>	<b>224</b>	<b>72%</b>
US	437	50	50	89%
European	357	174	174	51%
<b>Cash CDOs</b>	<b>1,960</b>	<b>789</b>	<b>740</b>	<b>60%</b>
US	1,070	194	201	82%
European	890	595	539	33%
<b>MBS</b>	<b>3,299</b>	<b>2,713</b>	<b>2,104</b>	<b>18%</b>
<b>Total</b>	<b>6,053</b>	<b>3,726</b>	<b>3,068</b>	<b>38%</b>

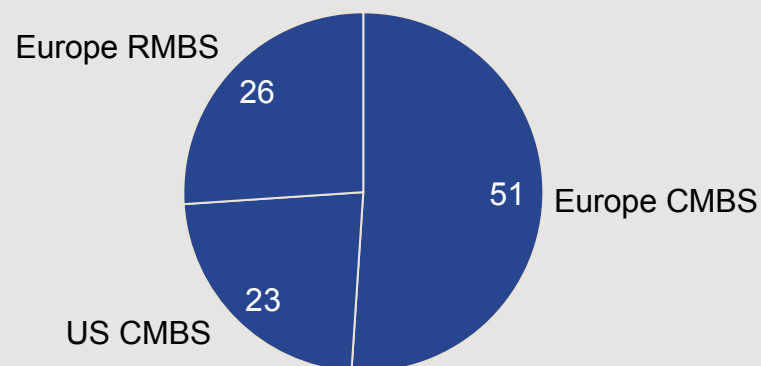
\* Incl. CLOs and CSOs

\*\* Write-downs vs. notional

## Structured products – overview MBS (CMBS, RMBS)

### MBS (CMBS, RMBS) in bank book 12/2008 in %

100% = EUR 2.10 bn, fair value exposure



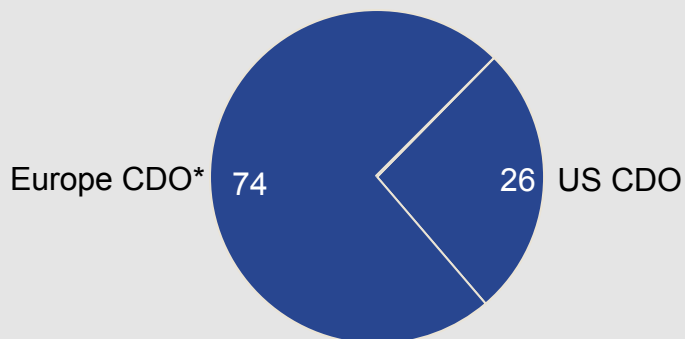
- ▶ Further fair value decline based on a significant increase of credit spreads
- ▶ Increased problems with CMBS due to Lehman insolvency, extension risk and loan defaults

EUR millions	Fair value 09/2008	Notional 12/2008	Fair value 12/2008
US CMBS	700	753	478
Europe CMBS	1,444	1,761	1,072
Europe RMBS	682	785	554
<b>Total</b>	<b>2,826</b>	<b>3,299</b>	<b>2,104</b>

## Structured products – overview CDOs\*

### CDOs\* in bank book 12/2008 in %

100% = EUR 0.96 bn, fair value exposure



EUR millions	Fair value 09/2008	Notional 12/2008	Fair value 12/2008
US CDOs	476	1,507	251
Europe CDOs*	844	1,247	713
<b>Total</b>	<b>1,320</b>	<b>2,754</b>	<b>964</b>

### US CDOs

- ▶ EUR 230 mio fair value decline due to increase of credit spreads and deterioration of collateral pool quality
- ▶ EUR 7 mio fair value increase due to FX change

### Europe CDOs and CLOs/CSOs

- ▶ Fair value decline of EUR 92 mio resp. EUR 38 mio for the EU CDOs resp. CLOs/CSOs due to increase of credit spreads and deterioration of collateral pool quality

Financial results Q4/FY 2008

Portfolio overview

**Ratings**

# Rating overview

	HG <sup>(1)</sup>	D-PF <sup>(2)</sup>	D-PLC <sup>(3)</sup>	D-ACS <sup>(4)</sup>	HPBI <sup>(5)</sup>	HPFB <sup>(6)</sup>
<b>S&amp;P</b>						
Public Sector Covered Bonds	AAA <sup>(7)</sup>	AAA <sup>(7)</sup>		AAA <sup>(7)</sup>	AAA <sup>(7)</sup>	
Mortgage Covered Bonds	AAA <sup>(7)</sup>					
Outlook	Developing	Developing	Developing	Developing	Developing	Developing
Long Term	BBB	BBB	BBB	BBB	BBB	BBB
Short Term	A-2	A-2	A-2	A-2	A-2	A-2
Subordinated Debt (Lower Tier 2)	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
<b>Moody's</b>						
Public Sector Covered Bonds	Aaa	Aaa		Aa2 <sup>(7)</sup>		
Mortgage Covered Bonds	Aa3					
Outlook	Negative	Negative	Negative	Negative		Negative
Long Term	A3	A3	A3	A3		A3
Short Term	P-1	P-1	P-1	P-1		P-1
Financial Strength	E+	E+	E+	E+		
Subordinated Debt (Lower Tier 2)	Baa1	Baa1	Baa1	Baa1		Baa1
<b>Fitch</b>						
Public Sector Covered Bonds	AAA <sup>(7)</sup>	AAA <sup>(7)</sup>		AAA		
Mortgage Covered Bonds	AA+ <sup>(7)</sup>					
Outlook	Stable	Stable	Stable	Stable		Stable
Long Term	A-	A-	A-	A-		A-
Short Term	F1	F1	F1	F1		F1
Individual Rating			F			
Subordinated Debt (Lower Tier 2)	BBB+	BBB+	BBB+	BBB+		BBB+

## Notes:

The above list does not include all ratings.

**Fitch** also assigned an **A- Long-term** rating with **Stable** Outlook, an **F1 Short-term** rating and an **F Individual** rating to **Hypo Real Estate Holding AG**.

1. Hypo Real Estate Bank AG (Merger of Hypo Real Estate Bank International AG into Hypo Real Estate Bank AG completed)
2. DEPFA Deutsche Pfandbriefbank AG
3. DEPFA Bank plc
4. DEPFA ACS Bank
5. Hypo Pfandbrief Bank International S.A.
6. Hypo Public Finance Bank
7. Credit Watch negative / On review for downgrade / Rating Watch Negative

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