

# Q2 2009 Results

Investor Relations Presentation  
August 7, 2009

# Highlights

- ┌ Overall economic environment remains difficult – strong deterioration of real estate markets continues
- ┌ Q2 2009 pretax loss of EUR 664 mio, loss after tax at EUR 750 mio
- ┌ Two main negative drivers of Q2 result:
  - ▶ Additions to loan-loss provisions of EUR 881 mio
    - ▶ EUR 899 mio in CRE<sup>1</sup>;  
individual loan-loss provisions at EUR 1,945 mio – coverage on CRE problem loans now 39.3%
    - ▶ EUR 20 mio release of portfolio-based provisions on certain public sector entities and infrastructure counterparties;  
individual loan-loss provisions at EUR 266 mio – coverage on PS&IF<sup>2</sup> problem loans now 36.3%
  - ▶ Expenses related to external liquidity support, including EUR 128 mio costs for SoFFin/FRG guarantees

1 CRE = Business segment 'Commercial Real Estate'

2 PS&IF = Business segment 'Public Sector & Infrastructure Finance'

## Highlights (cont'd)

Recapitalization under way – full control of FRG<sup>1</sup> over HRE Holding prerequisite for necessary further recapitalization

- ▶ First recapitalization measures undertaken – total amount of capital injected so far by SoFFin EUR ~3 bn, representing a majority stake of currently 90%
- ▶ Further significant capital support from SoFFin necessary, given that write-downs, risk provisions and costs of liquidity support as well as costs for repositioning will further affect equity substantially
- ▶ 'Squeeze out' of minority shareholders intended to gain full control (i.e. 100%) – a date has yet to be fixed

Liquidity situation further stabilized - total available external liquidity facilities currently at EUR 98.9 bn, thereof EUR 80 bn used by end of June 2009

Substantial progress made in restructuring process:

- ▶ Deutsche Pfandbriefbank AG established as strategic core bank through merger of DEPFA Deutsche Pfandbriefbank AG into HRE Bank AG
- ▶ Strategic and non-strategic business defined and funding strategy derived
- ▶ Global workout unit established
- ▶ Ongoing improvement of structurally and methodically adequate risk measurement tools
- ▶ 15 office locations closed as per end of July 2009 – around half of planned staff reduction for 2009 achieved or initiated
- ▶ First modules of new IT platform launched mid April

HRE is reviewing options together with SoFFin to transfer parts of the assets into a deconsolidated environment

# Agenda

1	<b>Q2 2009 Results</b>	Frank Krings
2	Update on Business Model	Dr. Kai Wilhelm Franzmeyer
3	Liquidity & Funding	Dr. Kai Wilhelm Franzmeyer
4	Next Steps	Frank Krings
5	Appendix	

# Pretax loss of EUR 664 mio in Q2 2009 – lower write-downs on securities, but significantly higher risk provisions required

## Hypo Real Estate Group

EUR millions

### Comments

- ▶ Net interest income benefits from favorable money market conditions since Q4 2008 (i.e. low interest rate levels)
- ▶ Net commission income burdened by costs for SoFFin/FRG guarantees of EUR -128 mio in Q2 2009 (Q1 2009: EUR -129 mio; Q4 2008: EUR -93 mio)
- ▶ Net trading income positive, resulting from less write-downs on synthetic CDOs (in Q2 2009 even EUR 5 mio write-back) and positive effects from counterparty risk related market value adjustments
- ▶ Net income from financial investments income still at improved levels vs. 2008 – write-downs on structured products only minor in Q2 2009:
  - ▶ Cash CDOs EUR -10 mio
  - ▶ MBS EUR -22 mio
- ▶ Net income from hedge relationships on more normalized level<sup>2</sup> in Q2 2009
- ▶ Other operating income burdened by FX effects
- ▶ Additions to loan-loss provisions significantly up, mainly as a result of further deteriorated real estate markets
- ▶ General administrative expenses down, partly reflecting the staff reduction related to restructuring

	Q2 2008	H1 2008	FY 2008	Q1 2009	Q2 2009	H1 2009
Operating revenues	236	420	-585	-80	348	268
thereof:						
Net interest and similar income	304	603	1,633 <sup>1</sup>	371	345	716
Net commission income	34	69	32	-108	-99	-207
Net trading income	12	-86	-1,009	-162	135	-27
Net income financial investments	-135	-164	-1,409	-30	-14	-44
Net income hedge relationships	15	-4	86	-110	3	-107
Other operating income/expenses	6	2	82	-41	-22	-63
Provisions for losses on loans and advances	-37	-70	-1,656	-196	-881	-1,077
General administrative expenses	-160	-305	-605	-130	-121	-251
Impairment on DEPFA goodwill/intangibles	0	0	-2,482	0	0	0
Other income/expenses	-22	162	-47	0	-10	-10
<b>Pretax profit</b>	<b>17</b>	<b>207</b>	<b>-5,375</b>	<b>-406</b>	<b>-664</b>	<b>-1,070</b>

<sup>1</sup> Incl. positive effect of EUR 353 mio from non-payment of coupons on hybrid instruments and devaluation of participation certificates (except former 'DEPFA Deutsche Pfandbriefbank AG')

<sup>2</sup> Negative result in Q1 2009 mainly caused by hedge inefficiencies and reflects reversal of effects in Q4 2008

# Key effects – EUR 881 mio additions to loan-loss provisions required in Q2 2009, for the most part for real estate loans

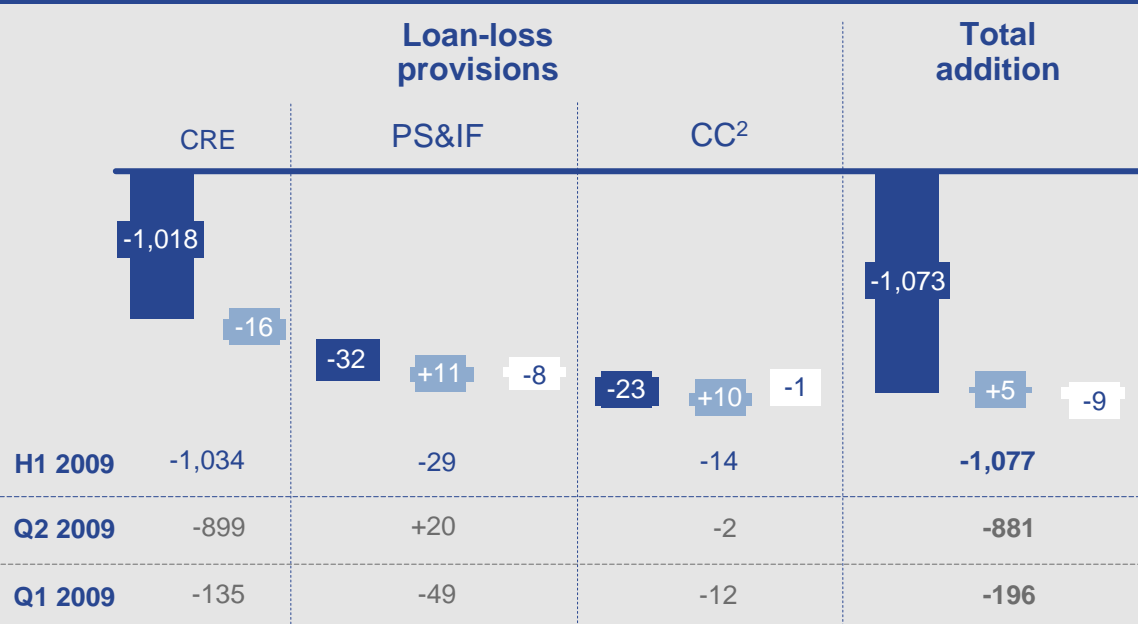
## Loan-loss provisions (LLPs)

EUR millions

■ Individual ■ Portfolio-based □ Other<sup>1</sup>

### Comments

### P&L



- ▶ Significantly higher risk provisions required in Q2 2009 as a result of the overall economic downturn strongly affecting the real estate markets
- ▶ Therefore, additions to loan-loss provisions for the most part relate to real estate loans, primarily including additions to individual allowances
- ▶ Property values declined (higher yields/cap rates), cash flows weakened (lower rental income, higher vacancy rates, oversupply of certain asset classes) and real estate transactions dropped significantly
- ▶ Release of portfolio-based provisions due to increased individual allowances

### Balance sheet

	12/2008	06/2009			Total
		CRE	PS&IF	CC <sup>2</sup>	
Individual allowances	1,628	1,945	266	447	2,658
Portfolio-based allowances	649	377	197	68	642
Provisions for contingent liabilities & other commitments	11	10	8	1	19
<b>Total loan-loss provisions</b>	<b>2,288</b>	<b>2,332</b>	<b>471</b>	<b>516</b>	<b>3,319</b>

- ▶ Coverage ratio on problem loans now as follows:
  - ▶ CRE: 39.3% (12/2008: 34.5%)
  - ▶ PS&IF<sup>3</sup>: 36.3% (12/2008: 35.8%)

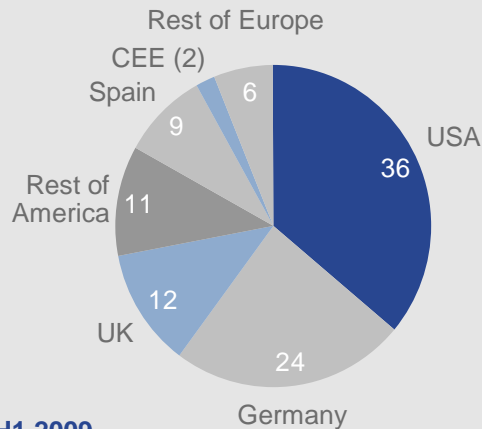
<sup>1</sup> Provisions for contingent liabilities & other commitments as well as recoveries from write-offs of loans and advances

<sup>2</sup> CC = Corporate Center <sup>3</sup> Based on problem loans, excl. exposure of Lehman Brothers and Icelandic banks

# Additions to individual loan-loss provisions – real estate markets further deteriorated, especially in North America, Southern Europe and Great Britain

## CRE/CC

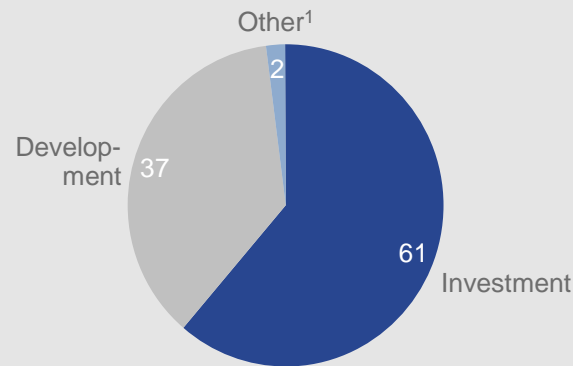
EUR 1,041 mio – by region in %



H1 2009

## CRE/CC

EUR 1,041 mio – by product in %



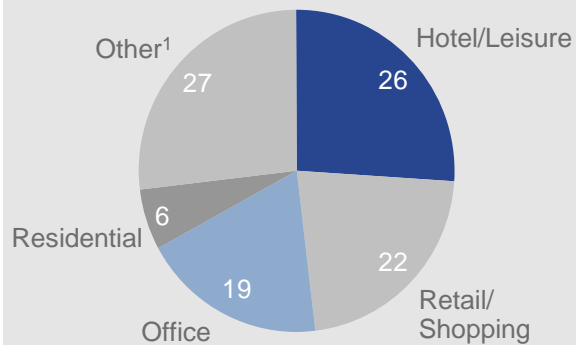
H1 2009

## Comments

- ▶ CRE (H1 2009: EUR 1,018 mio)
  - ▶ Real estate markets in North America, Southern Europe and UK, and to a lesser extent also Germany further deteriorated
  - ▶ ‘Development’ and ‘Hotel/Leisure’ loans over-proportionally hit
- ▶ CC (H1 2009: EUR 23 mio) – several individual small investors

## CRE/CC

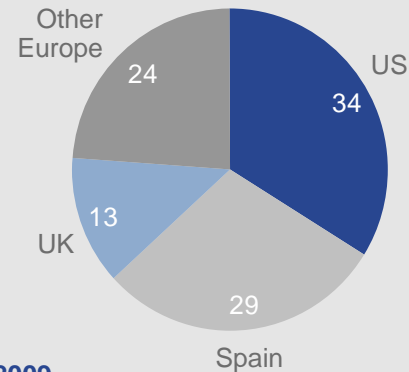
EUR 1,041 mio – by asset class in %



H1 2009

## PS&IF

EUR 32 mio – by region in %



H1 2009

- ▶ PS&IF (H1 2009: EUR 32 mio)
  - ▶ PS – mainly student loans
  - ▶ IF – motorway in Spain and airports in UK and Denmark

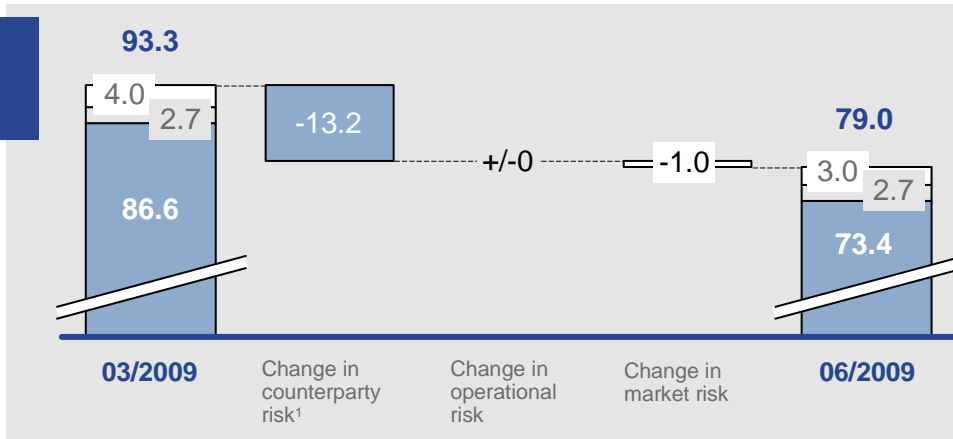
## Recapitalization under way – full control of FRG<sup>1</sup> over HRE Holding prerequisite for necessary further recapitalization

- On March 28, 2009, SoFFin declared - subject to acquiring full control - its intention to provide sufficient recapitalization and to further extend guarantees, if necessary
- On March 31, 2009 SoFFin took up 20 million shares from authorized capital ex rights, resulting in a 8.7% stake
- On April 17, 2009 SoFFin made a public offer to purchase the shares of all shareholders of HRE Holding at a price of EUR 1.39 per share.  
By the end of the acceptance period on May 4, 2009, the total number of shares held by SoFFin increased to ~109 million shares, representing a stake of ~47.3%
- At the EGM, June 2, 2009 the shareholders approved the proposal to increase registered share capital by up to EUR ~5.6 billion through the issuance of up to ~1.9 billion new no-par value bearer shares (ex rights)
- On June 8, 2009 SoFFin subscribed ~986 million of new shares, leading to a majority stake of 90%.  
Based on the issue price of EUR 3 per share this resulted in an amount of EUR ~3 billion flowing into the company
- Further significant capital support from SoFFin necessary, given that write-downs, risk provisions and costs of liquidity support as well as costs for repositioning will further affect equity substantially
- 'Squeeze out' of minority shareholders intended to gain full control (i.e. 100%)

# Tier I ratio (SolvV) at 6.9% as of 06/2009, including regulatory balance sheet loss 2008 and first recapitalization measures

## RWA EUR billions

- Market risk
- Operational risk
- Counterparty risk

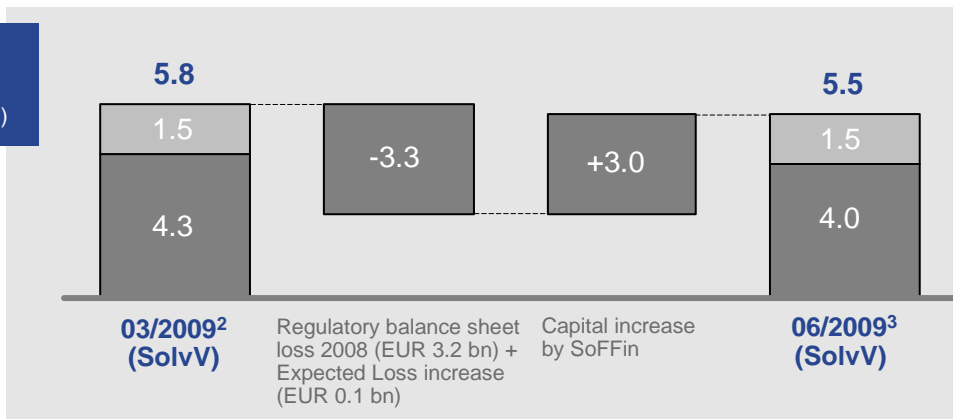


### Comments

- ▶ Decrease in counterparty risk mainly driven by incorporation of RWA reductions of CDO positions (write-downs on year end 2008)
- ▶ Decrease in market risk due to reduction of risk positions

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

- Hybrid capital
- Core Tier I



### Comments

- ▶ Tier I capital (SolvV) as of 06/2009 includes regulatory balance sheet loss 2008 (but not H1 2009 loss) and first recapitalization measures – Tier I ratio (SolvV) now at 6.9%
- ▶ Full control of FRG over HRE Holding prerequisite for necessary further recapitalization

**Tier I ratio<sup>4</sup>**  
(SolvV)

**6.3%**

**Pro forma Tier I ratio<sup>3,4</sup>**  
(SolvV)

**3.5%**

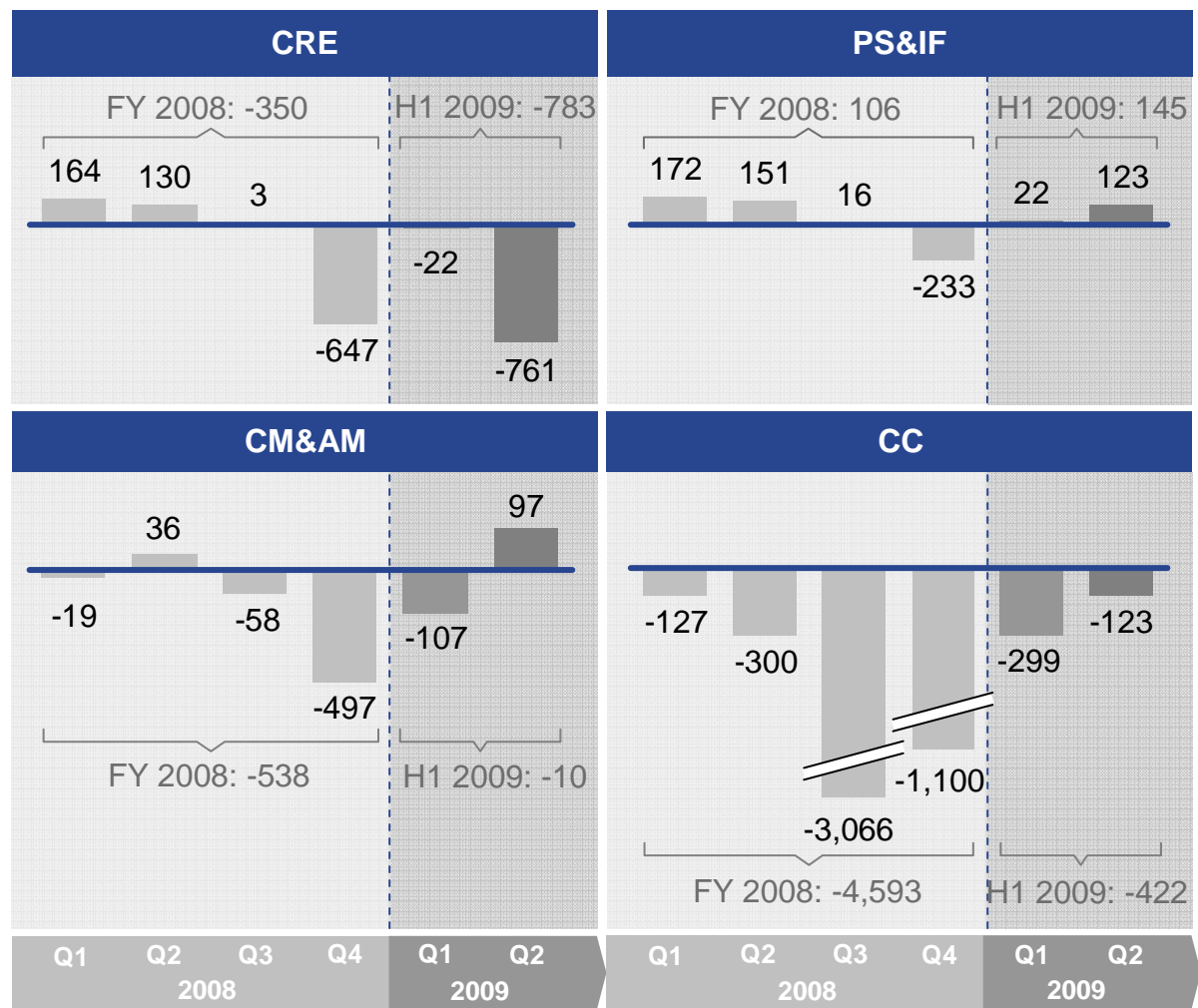
Note: Figures may not add up due to rounding

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

# Segment performance – reduced write-downs on securities in 2009

## Pretax profit by business segments

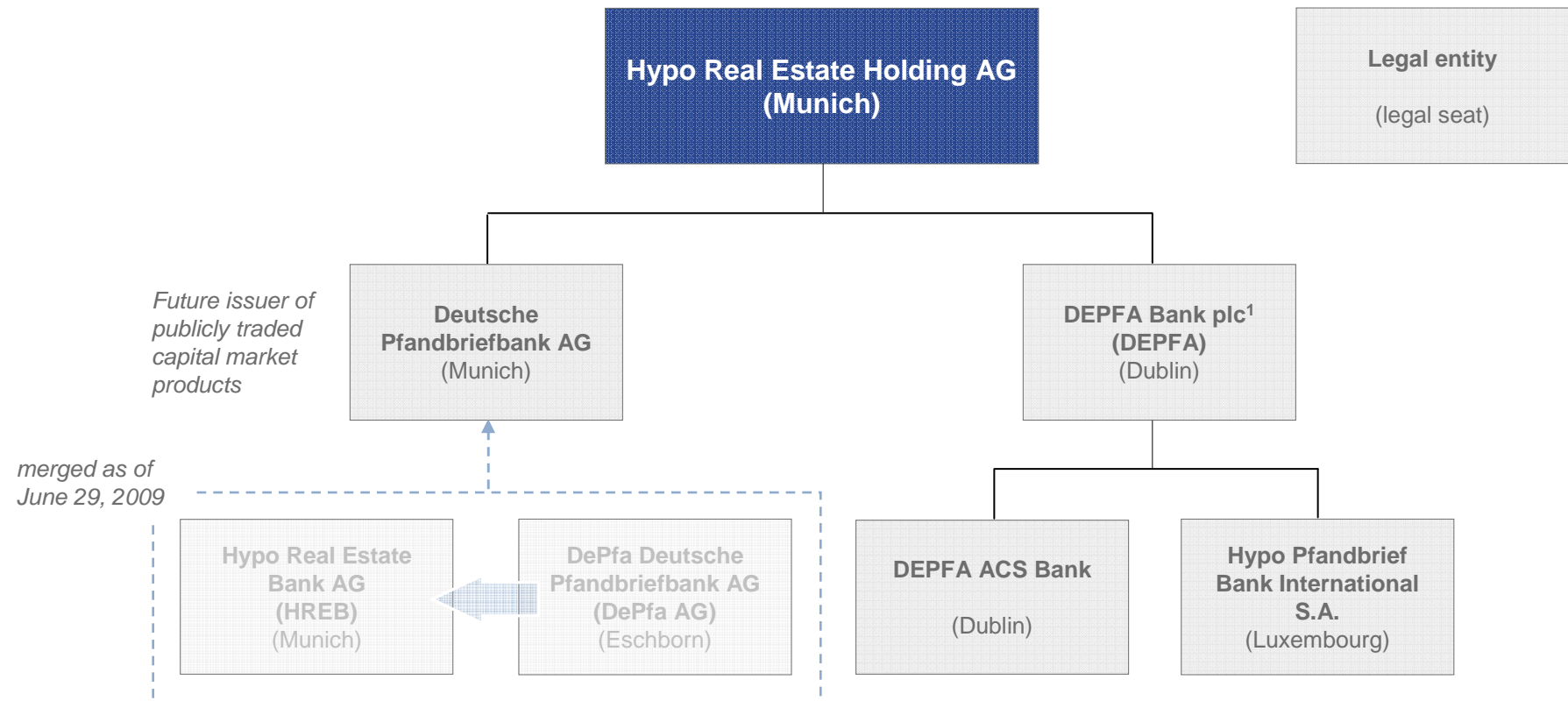
EUR millions



## Comments

- ▶ CRE – pretax profit reflects further deterioration of real estate markets in Q2
- ▶ PS&IF – pretax profit benefited from improved trading result and more normalized level in net income from hedge relationships in Q2 2009
- ▶ CM&AM – counterparty risk related market value adjustments volatile
- ▶ CC – reduced write-downs on structured products (CDOs, MBS) in 2009 vs. 2008

# Legal structure simplified – Deutsche Pfandbriefbank AG established as strategic core bank



## Rationale of the merger

- ▶ Simplification of legal structure and adaptation to re-aligned business model – reduction of complexity of corporate management
- ▶ Cost, personnel, issuance and franchise synergies in Real Estate and Public Finance business
- ▶ Repositioning and restructuring is a necessary condition for extensive support by SoFFin

## Organizational structure: Further location closures and reduced staff result in cost reduction and improved operational efficiency

- ┌ First two waves of location closures almost completed
  - ▶ 15<sup>1</sup> office locations closed as per end of July 2009, further 7 to be closed by year-end
  - ▶ 26 office locations to be closed in total until 2011, mainly outside Germany – finally 9 office locations will remain
  - ▶ In addition, office space will be consolidated at locations with multiple office buildings – currently consolidation of office locations in Munich, Dublin, London, Madrid and Paris underway; New York already completed in Q2
  
- ┌ Since November 1, 2008 staff reduction by ~300 employees secured in course of the restructuring program

Around half of planned staff reduction for 2009 already achieved or initiated
  
- ┌ First modules of new IT platform launched mid April

[11] 1 Sao Paulo, Tel Aviv, Lisbon, Sacramento, Chicago, Frankfurt, Copenhagen (2 Offices), Amsterdam, Stockholm, Hamburg, Manchester, Mexico City, Istanbul, Athens

# Agenda

1	Q2 2009 Results	Frank Krings
<b>2</b>	<b>Update on Business Model</b>	Dr. Kai Wilhelm Franzmeyer
3	Liquidity & Funding	Dr. Kai Wilhelm Franzmeyer
4	Next Steps	Frank Krings
5	Appendix	

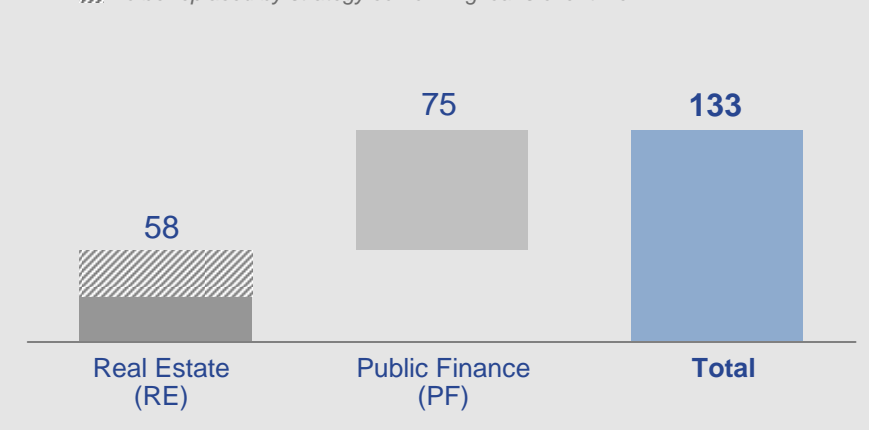
# Strategic portfolio and Value portfolio defined – capture the value and use the competitive advantage of the German Pfandbrief

INTERNAL UNAUDITED FIGURES

## Strategic portfolio

Notional in EUR billions – portfolio structure (12/2008)

*/// To be replaced by strategy conforming loans over time*

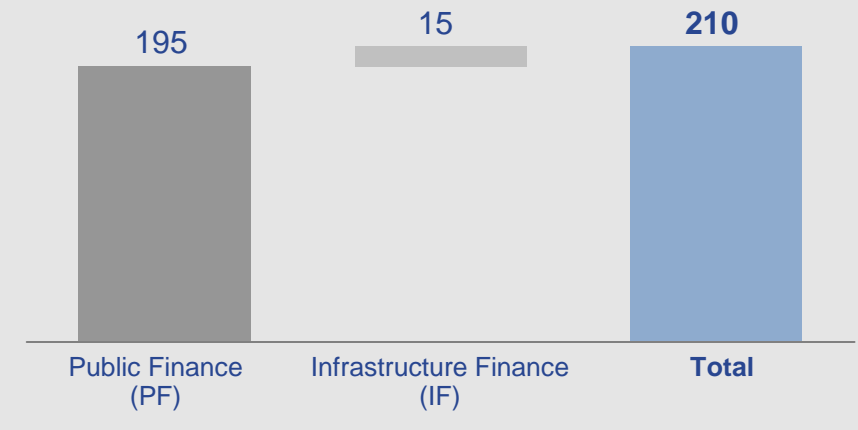


### Comments

- ▶ Business that can be funded via the German Pfandbrief
- ▶ Restructuring of existing RE portfolio through high quality new business - global workout unit implemented
- ▶ New business booked in new German entity 'Deutsche Pfandbriefbank AG'

## Value portfolio

Notional in EUR billions – portfolio structure (12/2008)



### Comments

- ▶ Business that cannot be funded via the German Pfandbrief or does not conform to the new business model in terms of volume/risk profile
- ▶ No business expansion. Instead, protection of existing value, avoidance of losses, and reduction of portfolio when market conditions allow
- ▶ Value portfolio will be concentrated in DEPFBA Bank plc (some minor parts in Deutsche Pfandbriefbank AG)

**HRE is reviewing options together with SoFFin to transfer parts of the non-strategic Real Estate portfolio and Value portfolio into a deconsolidated environment**

# New Real Estate business: Strategic repositioning of Real Estate portfolio towards lower-risk profile

## Real Estate Finance

<b>Geo- graphies</b>	<ul style="list-style-type: none"> <li>▶ Exclusively 'Pfandbrief'-eligible markets – focus on Germany and Europe</li> <li>▶ New business booked in new German entity 'Deutsche Pfandbriefbank AG'</li> </ul>	
<b>Clients</b>	<ul style="list-style-type: none"> <li>▶ Focus on Real Estate professionals with established track record</li> <li>▶ German 'Mittelstand'</li> </ul>	
<b>Markets</b>	<b>Property types</b>	<ul style="list-style-type: none"> <li>▶ Prioritization of office, retail, residential, and mixed use properties</li> </ul>
	<b>Loan types</b>	<ul style="list-style-type: none"> <li>▶ Focus on investment loans – non-speculative, pre-let development loans only as exceptions and if cover pool-eligible on a case-by-case basis</li> <li>▶ Continued focus on recourse financing in Germany and non-recourse financing internationally</li> </ul>
	<b>Ticket sizes</b>	<ul style="list-style-type: none"> <li>▶ Focus on mid-sized ticket sizes between EUR 30-70 million (Germany initially on lower end of this range)</li> <li>▶ Larger deals possible but final hold to be reduced via club deals or syndication, e.g., mezzanine tranches</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>▶ Focus on 'Pfandbrief' funding</li> </ul>	
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>▶ Pro-active managing and restructuring of existing portfolio: objective to reduce risk and increase return where feasible</li> </ul>	

## New Public Finance business: Strategy focus on origination – secondary market only to optimize portfolio structure

### Public Finance

#### Geo- graphies

- ▶ Focus on Germany and other European countries
- ▶ New business booked in new German entity 'Deutsche Pfandbriefbank AG'

#### Clients

- ▶ Focus on regions, municipalities and guaranteed PPP<sup>1</sup>
- ▶ Take advantage of a well established franchise

#### Markets

- ▶ New business strategy focus on origination – origination teams in Eschborn, Madrid, Paris and Rome
- ▶ Secondary market only to optimize portfolio structure

#### Funding

- ▶ Focus on 'Pfandbrief' funding – structural cover pool requirements as strategic element of funding strategy
- ▶ Conservative funding strategy
- ▶ Expansion of business based on existing funding capabilities
- ▶ High-quality cover pools

#### Risk Manage- ment

- ▶ Focus on durations with up to 10 years
- ▶ Target origination volumes fit into current risk strategy and appetite
- ▶ Strict limits on unmatched funding

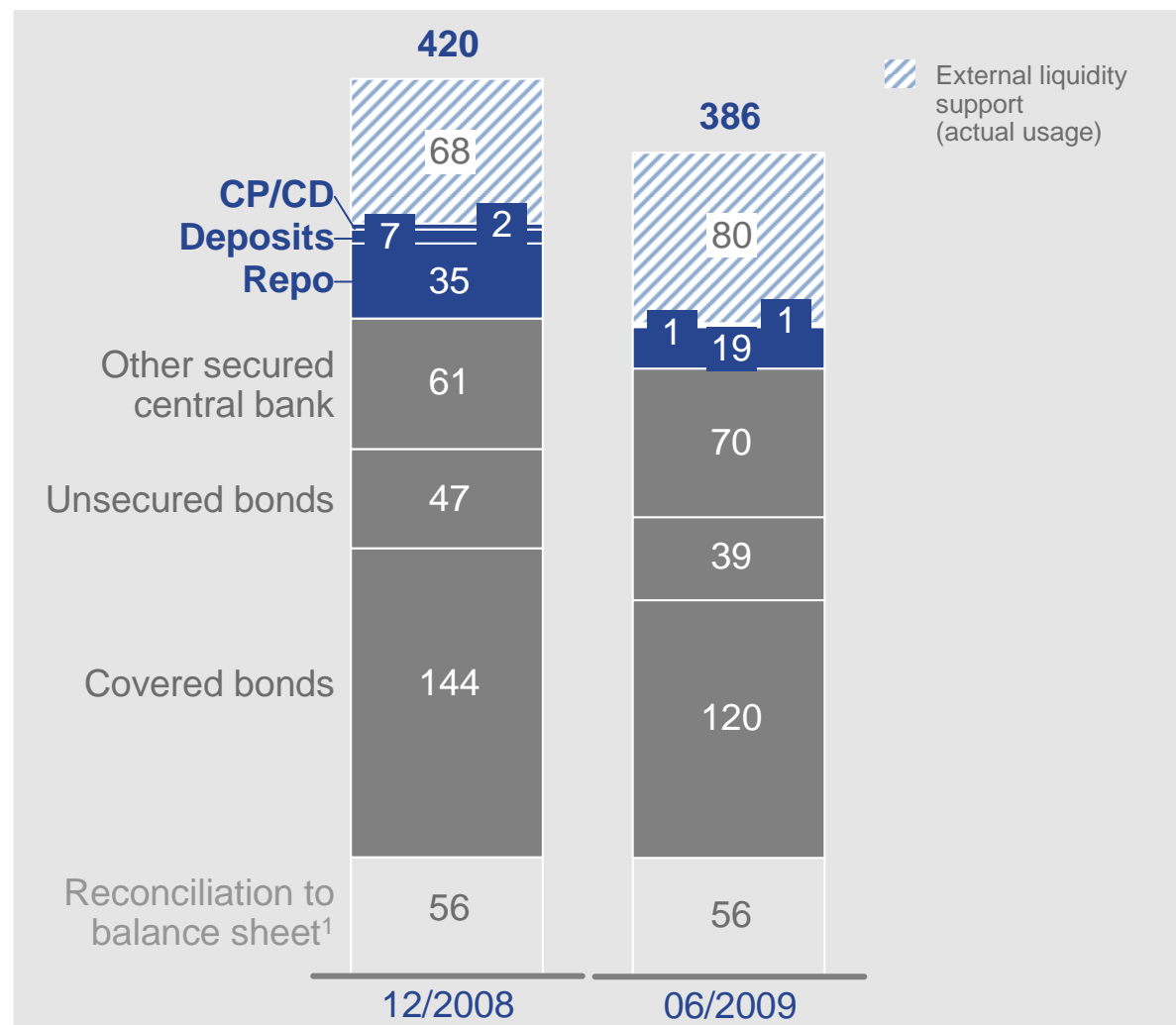
# Agenda

1	Q2 2009 Results	Frank Krings
2	Update on Business Model	Dr. Kai Wilhelm Franzmeyer
<b>3</b>	<b>Liquidity &amp; Funding</b>	Dr. Kai Wilhelm Franzmeyer
4	Next Steps	Frank Krings
5	Appendix	

# As of June 30, 2009 EUR 80 bn of external liquidity support and guarantees were drawn

## Hypo Real Estate Group – Liability profile

EUR billions

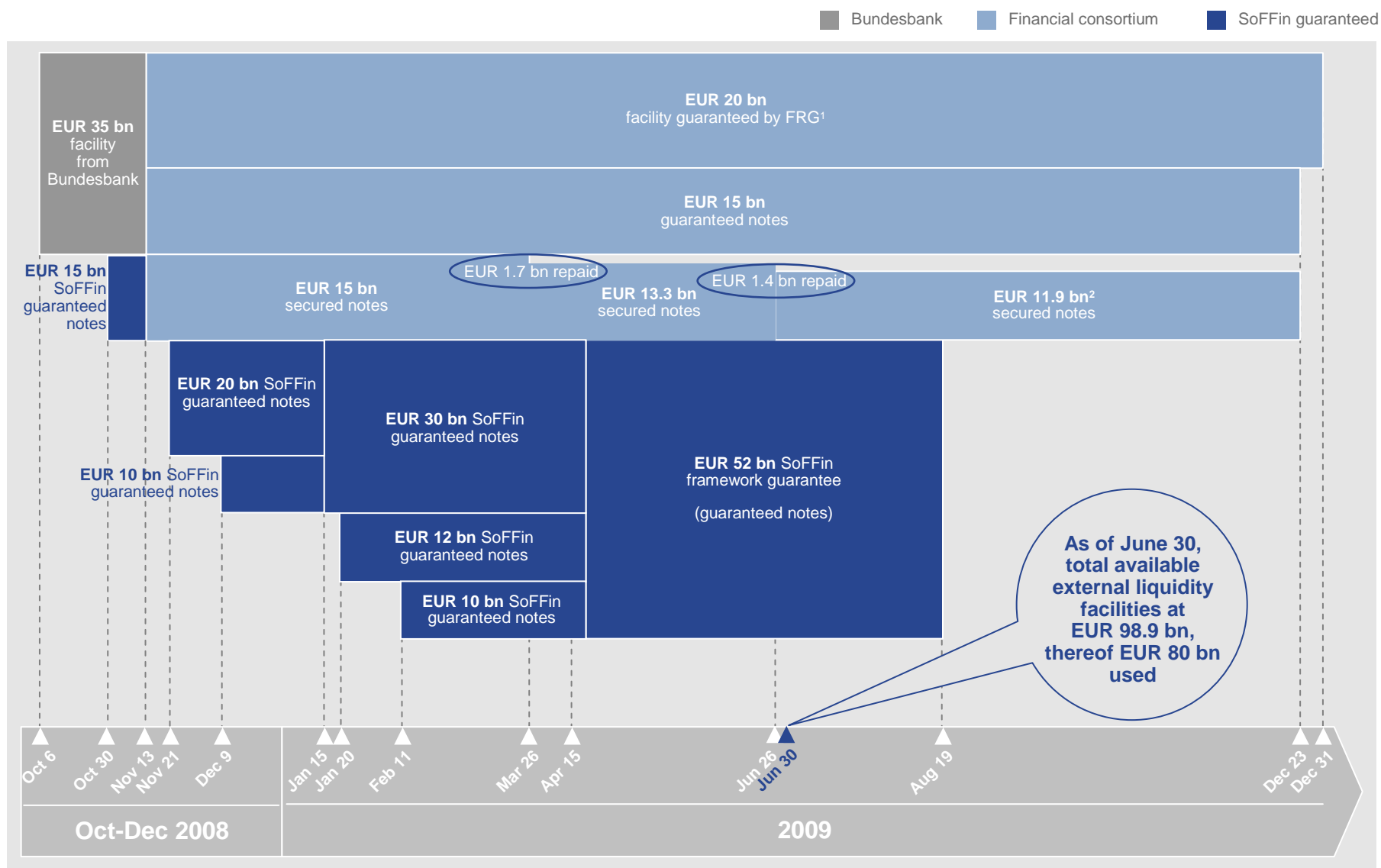


### Comments

- ▶ Gradually Banks are starting to re-establish credit lines and bilateral repo transactions and first Pfandbrief placements are taking place again – however, the Group still largely relies on external support
- ▶ In H1 2009, overall refinancing needs have declined
  - ▶ Market effects – e.g. FX effects, change of interest rate levels
  - ▶ Portfolio reduction – repayments higher than new business and committed lines drawn

[17] 1 Incl. equity, negative market values related to derivatives, income tax liabilities, accrued interest

# External support continues to be essential



# Agenda

1	Q2 2009 Results	Frank Krings
2	Update on Business Model	Dr. Kai Wilhelm Franzmeyer
3	Liquidity & Funding	Dr. Kai Wilhelm Franzmeyer
<b>4</b>	<b>Next Steps</b>	Frank Krings
5	Appendix	

## Next steps

### Immediate actions

- ▶ Annual General Meeting (AGM) on August 13
- ▶ Execution and continuing development of group-wide restructuring measures to implement lean target setup
- ▶ HRE is reviewing options together with SoFFin to transfer parts of the non-strategic Real Estate portfolio and Value portfolio into a deconsolidated environment
- ▶ EU application process for state aid

### Mid-term actions

- ▶ SoFFin intends to require minority shareholders to transfer their shares to SoFFin, against an appropriate settlement payment – full control (i.e. 100%) prerequisite for necessary further recapitalization
- An Extraordinary General Meeting (EGM) will need to decide on the squeeze-out of minority shareholders; a date has yet to be fixed
- ▶ Closure of further 7 office locations by end of 2009
  - ▶ Selective outsourcing in Q4 2009, e.g. IT infrastructure
  - ▶ Separation of Strategic and Value portfolio – controlled reduction of non-strategic portfolios
  - ▶ Discontinuation and controlled reduction of Infrastructure Finance as well as Capital Markets and Trading Business
  - ▶ Continuing implementation of an IT and process optimization program to consolidate the fragmented IT landscape

## Investor Relations contacts

### Ulrich Kern (Head)

+49 (0)89 20 30 07 780  
ulrich.kern@pfandbriefbank.com

### Machiel van Breen

+49 (0)89 2880 11013  
machiel.vanbreen@pfandbriefbank.com

### Frank Ertz

+49 (0)89 20 30 07 776  
frank.ertz@pfandbriefbank.com

### Michael Heuber

+49 (0)89 20 30 07 778  
michael.heuber@pfandbriefbank.com

### Claudia Tristl

+49 (0)89 2880 10972  
claudia.tristl@pfandbriefbank.com

[www.hyporealestate.com/eng/IR.php](http://www.hyporealestate.com/eng/IR.php)

## Financial Calender 2009

**13 August 2009**                      **Annual General Meeting**

**11 November 2009**                **Q3 2009 Results**

**- IMPORTANT NOTICE -**

This presentation is not an offer or invitation to subscribe for or purchase any securities.

No warranty is given as to the accuracy or completeness of the information in this presentation.

You must make your own independent investigation and appraisal of the business and financial condition of Hypo Real Estate Group and its securities.

Nothing in this presentation shall form the basis of any contract or commitment whatsoever.

This presentation is furnished to you solely for your information. You may not reproduce it or redistribute to any other person.

This presentation may only be made, distributed or passed on to persons in the United Kingdom in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This presentation contains forward-looking statements. These statements may be identified by such words as “may”, “plans”, “expects”, “believes” and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions. Various factors could cause actual future results, performance or events to differ materially from those described in these statements. Such factors include general economic conditions, the conditions of the financial markets in Germany, in Western Europe and in the United States, the performance of the Hypo Real Estate Group’ core markets and changes in laws and regulations. No obligation is assumed to update any forward-looking statements.

The presentation and any written materials distributed during such presentation are made available only to qualified institutional buyers, as such term is defined in Rule 144A under the U.S. Securities Act of 1933, as amended (“QIBs”). By participating in the presentation and accepting this document, you are deemed to represent that you are a QIB.

*By participating in this presentation or by accepting any copy of the slides presented, you agree to be bound by the foregoing limitations.*

# Agenda

1

Q2 2009 Results

Frank Krings

2

Update on Business Model

Dr. Kai Wilhelm Franzmeyer

3

Liquidity & Funding

Dr. Kai Wilhelm Franzmeyer

4

Next Steps

Frank Krings

**5**

**Appendix**

## Significantly increased problem loans

<b>Problem and watchlist loans<sup>1</sup></b> in EUR millions	<b>12/2007</b>	<b>12/2008</b>	<b>03/2009</b>	<b>06/2009</b>	<b>in % of relevant portfolio<sup>2</sup></b>	
<b>Total problem loans</b>	<b>1,729</b>	<b>4,979</b>	<b>5,576</b>	<b>7,468</b>	<b>2.06<sup>3</sup></b>	
<b>Workout loans</b>	<b>1,155</b>	<b>3,982</b>	<b>4,223</b>	<b>5,859</b>	<b>1.62<sup>3</sup></b>	No signs that the deal will recover soon, compulsory measures necessary
CRE Germany	1,050	1,272	1,257	2,007	7.43	
CRE International	98	2,451	2,649	3,537	10.72	
<i>US</i>	74	557	721	1,402		
<i>UK</i>	0	584	597	716		
<i>Spain</i>	24	809	810	818		
<i>Scandinavia</i>	0	75	75	45		
PS&IF	7	259	317	315	0.12	
<i>Lehman Brothers</i>	0	70	188	184		
<i>Icelandic Banks</i>	0	59	59	59		
<b>Restructuring loans</b>	<b>574</b>	<b>997</b>	<b>1,353</b>	<b>1,609</b>	<b>0.44<sup>3</sup></b>	Payments overdue more than 90 days or other criteria acc. to respective policy
CRE Germany	402	274	383	456	1.69	
CRE International	171	221	372	576	1.75	
<i>US</i>	0	0	0	129		
<i>UK</i>	93	0	106	17		
<i>Spain</i>	76	36	10	18		
<i>Scandinavia</i>	0	166	165	259		
PS&IF	1	502	598	577	0.22	Payments overdue more than 30 days or other criteria acc. to respective policy
<i>Student Loans</i>	0	376	374	352		
<b>Total watchlist loans</b>	<b>862</b>	<b>1,238</b>	<b>3,546</b>	<b>3,096</b>	<b>0.86<sup>3</sup></b>	

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

2 CRE Germany: EUR 27 bn, CRE International: EUR 33 bn, CRE Customer Derivatives: EUR 2 bn, PS&IF: EUR 262 bn

3 Total Group portfolio: EUR 362 bn

# European Office Property Clock<sup>1</sup> Q2 2009

## Landlord Favorable Market

## Tenant Favorable Market

### Slowing Market

- ▶ Vacancy below equilibrium levels and approaching cyclical low
- ▶ Strong demand spurs new supply
- ▶ Rental rates at or above replacement cost levels and rising
- ▶ New Construction underway and in the pipeline

### Rising Market

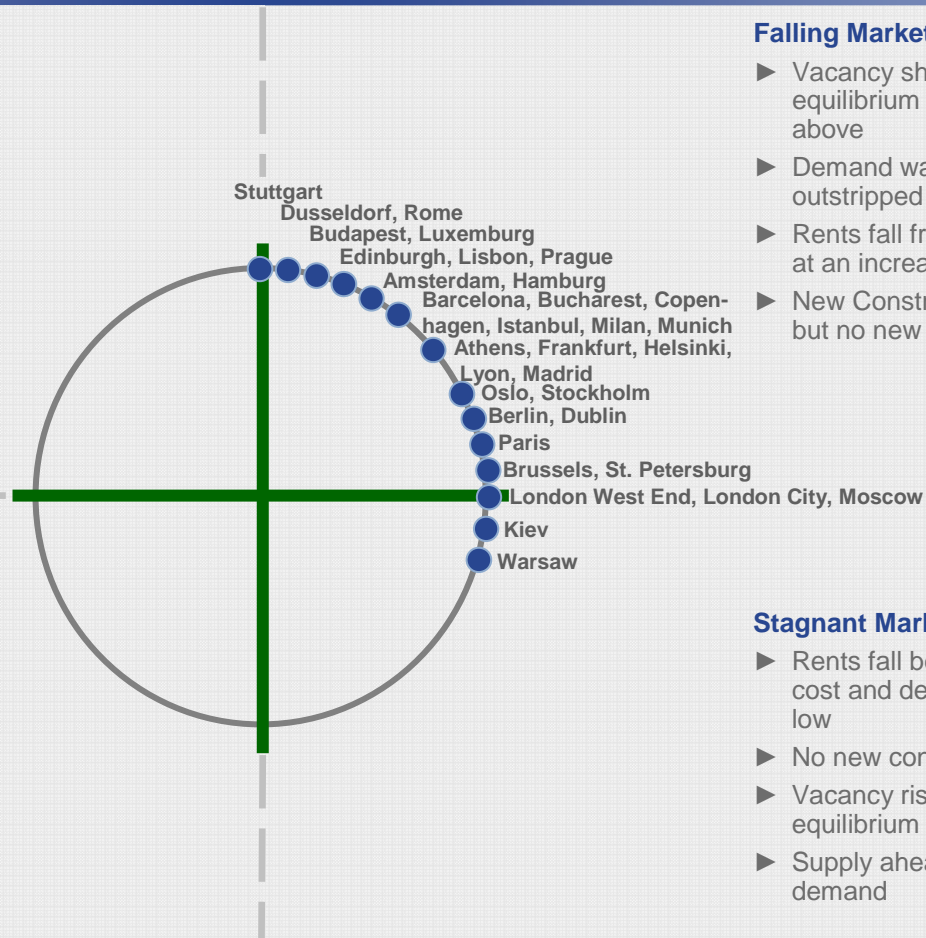
- ▶ Vacancy decreases from high to below equilibrium level
- ▶ Demand recovers and becomes strong
- ▶ Rental rates rise from cyclical low towards replacement cost
- ▶ No/limited new supply

### Falling Market

- ▶ Vacancy shifts from below equilibrium upward to well above
- ▶ Demand wanes and is outstripped by new supply
- ▶ Rents fall from cyclical peak at an increasing rate
- ▶ New Construction arriving but no new starts

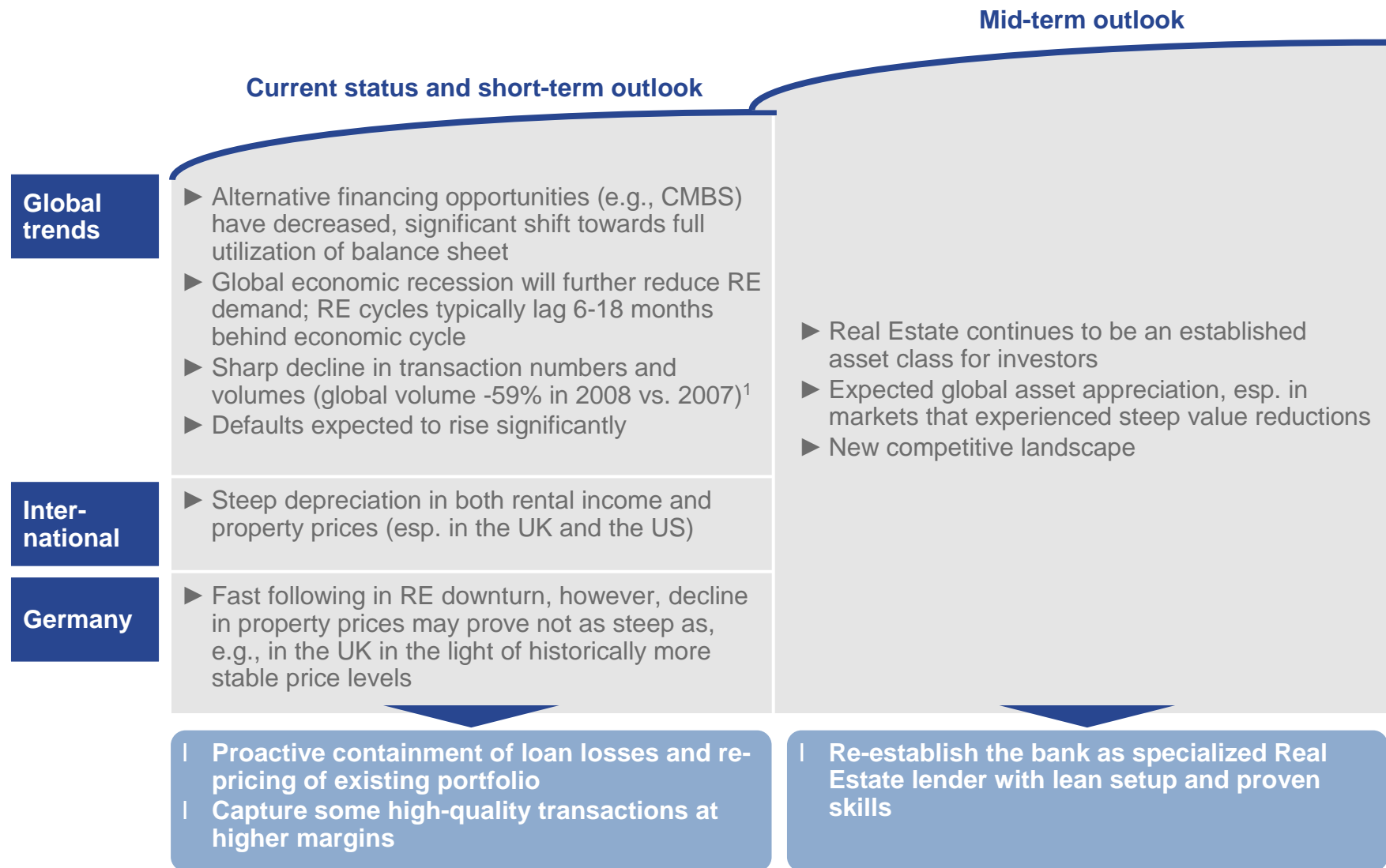
### Stagnant Market

- ▶ Rents fall below replacement cost and decline to cyclical low
- ▶ No new construction
- ▶ Vacancy rises above equilibrium and increasing
- ▶ Supply ahead of stagnant demand



European Office Property Clock Q2 2009 indicates, that most European cities are still in falling markets – no short-term recovery expected

# Currently difficult market environment for Real Estate financing, however opportunities exist in medium term



## Balance sheet (06/2009)

Assets EUR millions	30.06.2009	31.12.2008	Change		Equity and liabilities EUR millions	30.06.2009	31.12.2008	Change	
			EUR mio	%				EUR mio	%
Cash reserve	1,220	1,713	-493	-28.8	Liabilities to other banks	150,374	146,878	3,496	2.4
Trading assets	13,646	17,287	-3,641	-21.1	Liabilities to customers	12,726	15,936	-3,210	-20.1
Loans and advances to other banks	44,432	49,409	-4,977	-10.1	Liabilities evidenced by certificates	170,426	197,978	-27,552	-13.9
Loans and advances to customers	207,530	222,048	-14,518	-6.5	Trading liabilities	13,951	17,236	-3,285	-19.1
Allowances for losses on loans and advances	-3,300	-2,277	-1,023	-44.9	Provisions	337	352	-15	-4.3
Financial investments	101,061	108,740	-7,679	-7.1	Other liabilities	28,877	33,835	-4,958	-14.7
Property, plant and equipment	24	32	-8	-25.0	Income tax liabilities	3,994	4,163	-169	-4.1
Intangible assets	43	40	3	7.5	Current tax liabilities	174	161	13	8.1
Other assets	16,826	17,396	-570	-3.3	Deferred tax liabilities	3,820	4,002	-182	-4.5
Income tax assets	4,889	5,266	-377	-7.2	Subordinated capital	3,419	4,784	-1,365	-28.5
Current tax assets	117	132	-15	-11.4	<b>Liabilities</b>	<b>384,104</b>	<b>421,162</b>	<b>-37,058</b>	<b>-8.8</b>
Deferred tax assets	4,772	5,134	-362	-7.1	<b>Equity attributable to equity holders</b>	<b>2,267</b>	<b>-1,508</b>	<b>3,775</b>	<b>&gt;100.0</b>
<b>Total assets</b>	<b>386,371</b>	<b>419,654</b>	<b>-33,283</b>	<b>-7.9</b>	Subscribed capital	3,653	633	3,020	>100.0
					Hybrid capital instruments	1,043	-	1,043	>100.0
					Additional paid-in capital	6,354	6,352	2	0.0
					Retained earnings	-4,373	1,085	-5,458	<-100.0
					Revaluation reserve	-3,278	-4,117	839	20.4
					AfS reserve	-2,563	-3,115	552	17.7
					Cash flow hedge reserve	-715	-1,002	287	28.6
					Consolidated loss 2008	-	-5,461	5,461	100.0
					Consolidated loss H1 2009	-1,132	-	-1,132	<-100.0
					<b>Minority interest in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
					<b>Equity</b>	<b>2,267</b>	<b>-1,508</b>	<b>3,775</b>	<b>&gt;100.0</b>
					<b>Total equity and liabilities</b>	<b>386,371</b>	<b>419,654</b>	<b>-33,283</b>	<b>-7.9</b>

# New Management Board nearly complete

## Hypo Real Estate Group

CEO	CFO	COO	CRO	Treasury / Public Finance	Real Estate
Dr. Axel Wieandt	Alexander von Uslar Gleichen <sup>1</sup>	Frank Krings	Manuela Better	Dr. Kai Wilhelm Franzmeyer	N.N. <sup>2</sup>
<ul style="list-style-type: none"> <li>▶ Audit</li> <li>▶ Corporate Development</li> <li>▶ Communications</li> <li>▶ CEO DEPFA plc</li> </ul>	<ul style="list-style-type: none"> <li>▶ Finance</li> <li>▶ Planning &amp; Controlling</li> <li>▶ Tax</li> </ul>	<ul style="list-style-type: none"> <li>▶ Legal</li> <li>▶ Compliance &amp; Corporate Governance</li> <li>▶ Human Resources</li> <li>▶ Sourcing &amp; Corporate Services</li> <li>▶ Credit Operations</li> <li>▶ Payment &amp; Financial Markets Operations</li> <li>▶ Information Technology</li> <li>▶ Sourcing &amp; Corporate Services</li> </ul>	<ul style="list-style-type: none"> <li>▶ Credit Officer CRE</li> <li>▶ Credit Officer PS/FI &amp; Value Portfolio</li> <li>▶ Risk Management &amp; Control</li> <li>▶ Global Workout</li> <li>▶ Credit Quality Control</li> <li>▶ Property Analysis &amp; Mortgage Value Germany/Europe</li> </ul>	<ul style="list-style-type: none"> <li>▶ Treasury</li> <li>▶ Public Sector Clients</li> <li>▶ Portfolio &amp; Product Management</li> <li>▶ Value Management Europe/Rest of World</li> <li>▶ Value Management Americas</li> <li>▶ Business Management</li> <li>▶ Special Risk Projects</li> </ul>	<ul style="list-style-type: none"> <li>▶ CRE Business Germany</li> <li>▶ CRE Business International</li> <li>▶ Business Management</li> </ul>

2<sup>nd</sup> management level in place after management appraisal process; 3<sup>rd</sup> and 4<sup>th</sup> level appointed and operating

[28] 1 With effect from 1 October 2009; interim Frank Krings  
2 Interim Dr. Axel Wieandt

# Rating overview

	Deutsche Pfandbriefbank AG <sup>(1)</sup>	DEPFA Bank plc	DEPFA ACS Bank	Hypo Pfandbrief Bank International	Hypo Public Finance Bank
<b>S&amp;P</b>					
Public Sector Covered Bonds	AAA <sup>(2)</sup>		AAA <sup>(2)</sup>	AAA <sup>(2)</sup>	
Mortgage Covered Bonds	AAA <sup>(2)</sup>				
Outlook	Credit Watch Positive	Credit Watch Positive	Credit Watch Positive	Credit Watch Positive	Credit Watch Positive
Long Term	BBB	BBB	BBB	BBB	BBB
Short Term	A-2	A-2	A-2	A-2	A-2
Subordinated Debt (Lower Tier 2)	BBB-	BBB-	BBB-	BBB-	BBB-
<b>Moody's</b>					
Public Sector Covered Bonds	Aaa		Aa2 <sup>(2)</sup>		
Mortgage Covered Bonds	Aa3				
Outlook	Negative	Negative	Negative		Negative
Long Term	A3	A3	A3		A3
Short Term	P-1	P-1	P-1		P-1
Financial Strength	E+	E+	E+		
Subordinated Debt (Lower Tier 2)	Baa1	Baa1	Baa1		Baa1
<b>Fitch</b>					
Public Sector Covered Bonds	AAA <sup>(2)</sup>		AAA		
Mortgage Covered Bonds	AA+ <sup>(2)</sup>				
Outlook	Stable	Stable	Stable		Stable
Long Term	A-	A-	A-		A-
Short Term	F1+	F1+	F1+		F1+
Individual Rating		F			
Subordinated Debt (Lower Tier 2)	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. Former Hypo Real Estate Bank AG. Merger of DEPFA Deutsche Pfandbriefbank AG into Hypo Real Estate Bank AG completed.
2. Credit Watch negative / On review for downgrade / Rating Watch Negative