

Press release

HRE submits application for a transfer of assets

- Transfer to comprise operations no longer strategically required by the Group, as well as additional balance sheet items
- Transfer will permit a restructuring of the balance sheet, focus on core business, and a reduction in capital requirements

Munich, 21 January 2010 – Thursday, Hypo Real Estate Holding AG (HRE), in co-ordination with the German Financial Markets Stabilisation Fund (SoF-Fin), submitted an application to the German Financial Markets Stabilisation Agency (FMSA) for the establishment of a deconsolidated environment aimed at reducing assets in a value preserving manner. HRE Group intends to transfer operations no longer strategically required for the Group's realignment, as well as additional balance sheet items, to this deconsolidated environment. The transfer, which is set to cover assets worth up to EUR 210 billion, is scheduled to take place during the second half of 2010, once all necessary approvals have been obtained from the responsible corporate bodies and institutions.

The transaction will permit Deutsche Pfandbriefbank AG, the Group's core bank, to continue focusing on its sustainable and forward-looking core business activities – and thus make an important contribution to the supply of credit for the real estate industry and the public sector. This will also permit loans which no longer fall within the scope of the core bank's strategic focus to be maintained, preserving value, in the interest of the bank's clients. Moreover, the transfer is designed to lower Deutsche Pfandbriefbank AG's additional capital requirements, and to accelerate the process of preparing the Group for an eventual re-privatisation.

Specifically, the Group contemplates transferring parts of the public finance and real estate finance portfolios of DEPFA BANK plc and Deutsche Pfandbriefbank AG. The public finance portfolio consists of highly-rated government or government-related assets which, despite their strong credit quality, are currently suffering from lower market valuations. Parts of the real estate financing portfolio are affected by the prevailing difficult environment that continues to burden this segment.

The transfer may also include assets currently held by other Group entities, particularly DEPFA ACS BANK (Dublin), Hypo Pfandbriefbank International (Luxembourg) and Hypo Public Finance Bank (Dublin), as well as structured products and trading positions that are exposed to increased default risks, which will have been written down if necessary or will have been included in the net trading result.

Derivatives positions (predominantly used as hedges for both asset and liability items) might also be transferred to the deconsolidated environment.

There are discussions regarding an inclusion of selected funding instruments in the scope of the transfer to the deconsolidated environment, in addition to assets. However, no transfer of unsecured fundings, Pfandbriefs or other covered bonds issued by Group entities for funding purposes is planned.

Details regarding the actual asset portfolios, liabilities and derivatives to be transferred, the manner in which the transfer will take place, and the exact specifications of the deconsolidated environment, have yet to be determined in coordination with the FMSA. It is anticipated, that Group entities will continue to manage the portfolios as well as providing additional services to the deconsolidated environment. The parties intend to resolve these issues by mid-2010. In parallel, the necessary IT infrastructure will be established and processes separated.

CEO **Axel Wieandt** said: "Establishing a deconsolidated environment is a key milestone in the Group's realignment process. We will thus strengthen pbb Deutsche Pfandbriefbank as the Group's core bank by relieving it of non-strategic or sub-performing assets, significantly reducing the size of its balance sheet."

The establishment of a deconsolidated environment is governed by the German Financial Markets Stabilisation Fund Act („FMStFG“). The application for establishing such an institution was submitted pursuant to section 8a of the FMStFG. There is no legally enforceable right upon establishment of a deconsolidated environment: whether and to what extent the application will be approved is within FMSA's discretion. The transfer of assets requires the consent of executive bodies of the legal entities involved. Furthermore, the use of a deconsolidated environment is subject to approval by the European Union. Accordingly, this has already been included in the European Commission's ongoing state aid control proceedings.

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