Hypo Real Estate
GROUP

Annual Report 2008

Financial Highlights

Financial Highlights

		2008	2007
Operating performance according to IFRS			
Pre-tax profit	in € million	–5,375	587
Net income / loss	in € million	–5,461	457
Key ratio			
Return on equity after taxes	in %	–74.5	8.5
Pro forma operating performance [1]		**2008**	**2007**
Pre-tax profit	in € million	–5,375	862
Key ratio			
Cost-income ratio (based on operating revenues)	in %	> 100.0	44.8
Balance sheet figures		**31.12.2008**	**31.12.2007**
Total assets	in € billion	419.7	400.2
Equity (excluding revaluation reserve)	in € billion	2.6	7.9
Key regulatory capital ratios		**31.12.2008**	**31.12.2007**
Core capital [2]	in € billion	5.9	9.3
Own funds [2]	in € billion	8.2	12.2
Risk-weighted assets [3]	in € billion	95.3 [4]	109.1
Core capital ratio [2][3]	in %	6.2	8.5
Own funds ratio [2][3]	in %	8.6	11.1
Personnel		**31.12.2008**	**31.12.2007**
Employees		1,786	2,000

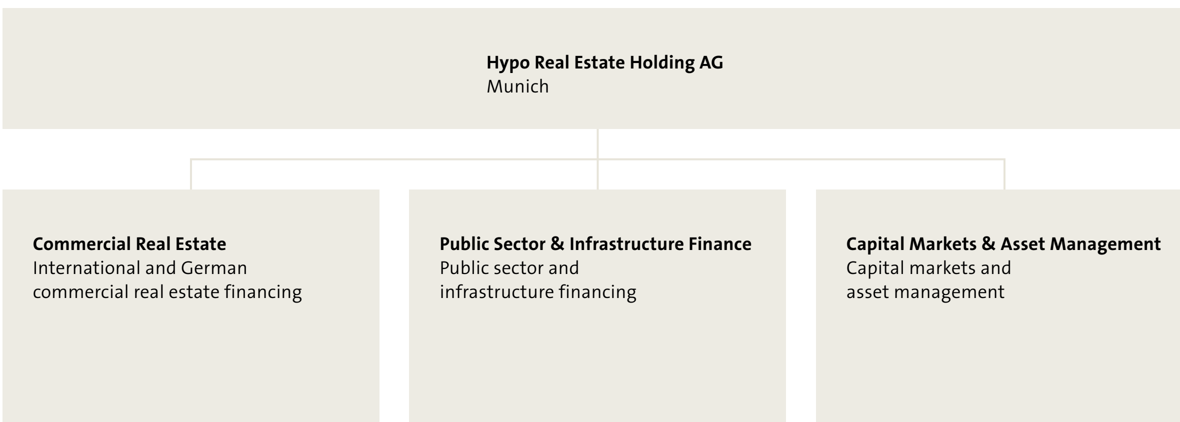
1) Assumes first time consolidation of DEPFA at 1 January 2006
2) Before approved annual financial statements and before profit distribution; 2007 according to Principle I
3) 2008 including counterparty risks, weighted market risk positions and weighted operational risks; 2007 according to Principle I; including counterparty risks and weighted market risk positions
4) Before approved annual financial statements and before profit distribution; according to Basle II IRB approach for authorised portfolios, otherwise Basle II standardised approach

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Operating Structure
Ratings

Operating Structure of Hypo Real Estate Group

as of 31 December 2008



Ratings

as of 28 March 2009

		Moody's	Standard & Poor's	Fitch Rating
Hypo Real Estate Bank AG	Long-term	A3	BBB	A–
	Short-term	P–1	A–2	F1
	Outlook	Negative	Developing	Stable
DEPFA BANK plc	Long-term	A3	BBB	A–
	Short-term	P–1	A–2	F1
	Outlook	Negative	Developing	Stable
DEPFA Deutsche Pfandbriefbank AG	Long-term	A3	BBB	A–
	Short-term	P–1	A–2	F1
	Outlook	Negative	Developing	Stable

Content

To Our Shareholders

Dear Shareholders, the year 2008 was characterised by the general crisis on the financial markets and the specific extremely difficult situation of Hypo Real Estate Group which posed a threat to the Group's very existence. The current Management Board has repeatedly provided you with information concerning the consequences for the Company. These consolidated financial statements confirm this: following years of growth, Hypo Real Estate Group has closed the year under review with a very high loss. At the same time, Hypo Real Estate Group is about to embark on a complete restructuring process with the aim of establishing itself medium term as a specialist bank for real estate and public sector financing focusing on Germany and Europe and with the aim of making the Group successful.

The restructuring process started with changes in personnel in the Management Board: in the meantime, all members of the former Management Board of Hypo Real Estate Holding AG have stepped down, and most of the positions have been re-filled. The Supervisory Board has also been completely replaced since the middle of November.

The final months of last year and the start of the new financial year were characterised by the liquidity shortage affecting the Hypo Real Estate Group. The need for long-term liquidity and capital support to be provided by the Federal Republic of Germany arose as a result of the collapse of the US investment bank Lehman Brothers and subsequently by the collapse of the interbank market. A liquidity facility of the German credit and insurance industry as well as the German Bundesbank, and also guarantees provided by the financial market stabilisation fund, assured the liquidity which was necessary for stabilising the Company to date. Further adequate liquidity support provided by the Federal Republic of Germany is an essential precondition for the continued existence of the Hypo Real Estate Group as a going concern.

The crisis on the financial markets has also had a significant impact on the consolidated financial statements of the Hypo Real Estate Group. Accordingly, recapitalisation of the Group by the Federal Republic of Germany is an essential precondition for the continuing existence of the Group as a going concern. In a statement of intent provided to Hypo Real Estate Holding AG, the financial market stabilisation fund confirmed on 28 March 2009 that it intends to take stabilisation measures for the benefit of the Hypo Real Estate Group, particularly by way of adequate recapitalisation of Hypo Real Estate Holding AG and also by way of issuing further guarantees. The financial market stabilisation fund has now acquired a stake in the Company's capital, and now owns around 8.7 % of tvhe shares of Hypo Real Estate Holding AG. The Federal Republic of Germany intends to acquire complete control of the Hypo Real Estate Group and has provided you with a take-over offer for this purpose.

We are very grateful for the support we have received from the Federal Republic of Germany, the financial market stabilisation fund and also provided by the German credit and insurance industry.

Two strategic initiatives for the structure of a new bank

The work of the current Management Board has two strategic initiatives which have been developed in conjunction with the new Supervisory Board:

- To develop a strategy for a new bank capable of meeting future challenges
- To fundamentally revise the structures and processes

Although this process will take several years, it is already apparent that all strategic initiatives are producing visible results. We attach maximum priority to continuing this work.

Our employees are making a major contribution to the process of restructuring the Hypo Real Estate Group. We are extremely impressed by the high level of commitment of the entire workforce and are grateful for the work which they have provided.

Definition of the corporate strategy and business model

The business model of the Hypo Real Estate Group will have to be adapted to meet the changed conditions on the capital markets and the increasing challenges in real estate business. We defined the new strategy and the new business model in December 2008. The implementation process has already started, and will be carried out in several phases.

The strategic future of the Hypo Real Estate Group is that of a specialist bank for Real Estate and Public Sector Finance. Refinancing in future will focus primarily on Pfandbriefe, and in regional terms we will focus on Germany and Europe, although we will also operate on other markets depending on the particular area of business. Our aim is to initially write a moderate amount of new business in these redefined core areas of business. With regard to new business, we intend in future to focus on a low risk profile and aim to achieve a conservative balance sheet structure. We intend to maintain the value of the existing portfolio and to consolidate the portfolio. My colleagues on the Management Board and I are convinced that the Hypo Real Estate Group has a clear strategic perspective with this focus.

The need for a specialist bank which will come into being as a result of the restructuring of the Hypo Real Estate Group is obvious. The Hypo Real Estate Group is an intermediary between the real economy and the financial economy, and the process of supplying credit is a key economic function. The public sector and private SMEs as well as institutional investors require loans in order to be able to carry out investments – and they will continue to do so. The Hypo Real Estate Group wants to cover this demand and thus be successful.

The Hypo Real Estate Group has mission-critical know how for this business model. We have access to the relevant markets, for the acquisition of customers and also as a result of our expertise in the Pfandbrief market. The Pfandbrief itself is a superior security. The German Pfandbrief, which is a positive USP of the German capital market, has also held up well in the financial crisis. It enjoys a broad degree of confidence on the international markets and on the political scene.

We aim to achieve cost leadership in our core business. A program designed to rapidly and sustainably reduce our cost base has been initiated for this purpose. The aim is to reduce our cost base by € 200 million by the year 2011 compared with the year 2008. One of the overriding objectives of the next few years will be to consistently implement the restructuring program which has been adopted.

We can already see that despite the situation which continues to be difficult, there is a demand for our services: we are speaking with our customers for extending existing financing arrangements and are actively attempting to take on attractive new business.

Changes to the structures and processes

We have analysed the risk positions and the credit portfolio with regard to the changes of structures and processes. On this basis, we have started to establish efficient processes for risk management and liquidity management. We have also identified those positions in our portfolio which require particular attention and we are setting up a Global Work-Out unit which is responsible for monitoring these loans.

In the past, the corporate and governance structure of the Group was very complex. Accordingly, we have simplified and harmonised the structures by means of numerous measures. The first step in this respect was to merge Hypo Real Estate Bank International AG with Hypo Real Estate Bank AG. We are also working towards merging Hypo Real Estate Bank AG with DEPFA Deutsche Pfandbrief Bank AG. The management boards of Hypo Real Estate Holding AG and Hypo Real Estate Bank AG now consist of the same persons. All members of the Management Board of Hypo Real Estate Holding AG also sit as non-executive directors on the board of DEPFA BANK plc.

And finally, we have also adapted our management structure. With these changes, we have for the first time achieved consistent management across all legal entities. We have eliminated redundant aspects, shortened reporting lines and established and expanded mission-critical functions.

Simultaneously with the new management structure, we have also restructured the second management tier of the Bank. The senior executives have undergone a selection process in advance for this purpose. The Hypo Real Estate Group is now in a better position in organisational and personnel terms. We are working on appointing persons to the next tiers of management.

The first part of a completely new IT platform, which is a uniform processing and management platform throughout the Group, was put into service in mid-April. We will expand this platform in several stages and make it into the technical backbone of the new bank.

Implementation of the business model in several phases

In 2008, we carried out a comprehensive analysis and implemented the most urgent adjustments. The next two to three years will be characterised by consolidation and restructuring – we are setting up the new bank.

We have started to close locations which are either unprofitable or no longer fit into our future regional structure; we are also working on the measures designed to reduce manning levels this year as planned.

Before the end of this year, we will split the entire portfolio into two sections which we will manage separately. One portfolio will contain the assets which are considered to be strategic after the restructuring process has been completed – this is where new business will be originated in future. The other portfolio, which is not part of the future core business of our bank and mainly spans assets of high quality public debtors, should in due course, and depending on market developments, be wound down in in a value-conserving manner. Both are part of the Group, however, they have clearly differentiated business assignments and management teams.

We intend to complete this consolidation and restructuring process by no later than the year 2011. The new IT should be largely rolled out, and all activities of the new bank will run on a uniform platform. Most of the unavoidable process of reducing personnel capacities will be completed by then, and our cost base will at the same time be correspondingly lower.

We also intend to have completed our restructuring process with regard to business and customers at that time: A traditional Pfandbrief bank which finances municipalities and federal states and extends mortgages for the real estate sector.

This will also be reflected in the results development. We expect a pre-tax loss for at least the next two years during which our business is being consolidated. This is also a reason why we require the support of the Federal Republic of Germany. The development in subsequent years will then very much depend on the future development of the world economy and the financial markets. Latest in three years time, with regard to the international competition we want to be one of the best-positioned Pfandbrief banks.

Kind regards

Dr. Axel Wieandt
Management Board

Dear Shareholders, following numerous successful years, the Hypo Real Estate Group in 2008 was hit by a corporate crisis and crisis of confidence which threatened its very existence as a going concern. This was due to the financial and economic crisis which expanded in 2008. It has been possible for the Company to be stabilised with the aid of the public sector and a syndicate from the German financial sector. The financial syndicate has provided liquidity aid, whereas the public sector has provided short-term guarantees.

Supervisory Board of Hypo Real Estate Holding AG

as of 28 March 2009

Supervisory Board

Dr. Michael Endres, Chairman
Bernhard Walter, Deputy Chairman | Dr. Renate Krümmer, Deputy Chairman (until 31.3.2009)
Bernd Knobloch | Dr. Edgar Meister | Siegmar Mosdorf | Hans-Jörg Vetter | Manfred Zaß
J. Christopher Flowers (until 27.3.2009) | Richard S. Mully (until 27.3.2009)

Remuneration and Nomination Committee

Dr. Michael Endres, Chairman
Hans-Jörg Vetter
Bernhard Walter

Audit Committee

Bernhard Walter, Chairman
Dr. Michael Endres
Dr. Edgar Meister

Risk Management and Liquidity Strategy Committee

Bernd Knobloch, Chairman
Dr. Michael Endres
Manfred Zaß

Nomination Committee

Dr. Michael Endres, Chairman
Hans-Jörg Vetter
Bernhard Walter

Since the appointment of the new executive bodies, resolutions have been adopted with regard to numerous steps designed to simplify the legal structure, to improve the IT processes as well as the organisation and management of the Company; some of these steps have already been implemented. In addition, the Company is holding advanced discussions with the SoFFin with regard to the granting of longer-term and comprehensive measures for providing liquidity and capital support to the Group, and is currently assuming that this support will indeed be provided.

Following the resignation of most of the members of the Supervisory Board, the Supervisory Board was reconstituted with almost entirely new faces on 17 November 2008. The Management Board was also gradually completely renewed from mid-October onwards. The aim of the measures which have so far been taken is to bring the Company out of the crisis, to restore its future viability and also to ensure that the damage for creditors, the taxpayer and shareholders is minimised. The aim is to create an institution focusing on Pfandbrief-eligible business in the real estate and public sector finance business in Germany and Europe.

The new Supervisory Board has extensively discussed the restructuring measures and a new business model in three meetings with the Management Board. The Supervisory Board was informed regularly and promptly by the Management Board with regard to the economic and financial development, the business policy and planning, the strategy, the risk position, risk management and the liquidity strategy. Outside the meetings, the Management Board also provided written reports regarding issues of considerable importance. In addition, the chairman of the Management Board and the chairman of the Supervisory Board maintained constant contact with regard to important developments.

Work in the Supervisory Board

The Supervisory Board plenary body met on 24 occasions in the year under review; the restructured Supervisory Board met on three occasions after November. As a result of the change in the composition of the Supervisory Board, no member attended all meetings.

The following has to be borne in mind with regard to the individual meetings as well as the subject of the deliberations.

In its extraordinary meeting on 15 January 2008, the Supervisory Board discussed the effects of the charges attributable to CDOs on the figures for 2007 and also the related effects on a dividend payment. In its February meeting, the Supervisory Board intensively discussed the effects of the communication concerning the CDO charges in January. The main subjects of the meeting held on 4 March 2008 were a report regarding a possible entry of investors, the business outlook for the first quarter of 2008, the continuation of the discussion concerning the risk situation in relation to structured products as well as the related communication planning. In this meeting, the Supervisory Board also considered the market development in the main sales areas of the bank as well as the current business planning and personnel issues. On 26 March 2008, the Supervisory Board adopted the annual financial statements and deliberated on the business planning. It also advised on the progress being made with investor discussions, adopted the agenda of the Annual General Meeting and decided to again propose the auditing company KPMG as the auditor to the Annual General Meeting. In its extraordinary meeting held on 25 May 2008, the committee discussed and decided to issue a comment regarding the published offer of the group of investors coordinated by J.C. Flowers and decided not to make a recommendation to accept the offer. Following consultation, the Supervisory Board, in its meeting held on 27 May 2008, proposed to the Annual General Meeting that the deployment of a special auditor in accordance with section 142 AktG as well as further submissions of shareholders should be rejected. The subjects of the meeting held on 24 June 2008 included issues relating to the agenda and the make-up of the committee as well as a report concerning the status of the offer of the group of investors coordinated by J.C. Flowers and the outlook for the figures of the second quarter. The committee extensively discussed an overview of the DEPFA portfolio and its risk and refinancing structure. The discussions also considered the necessary adjustment of the IT structures of the existing Group. The meeting held on 22/23 September 2008 extensively considered key aspects and the presentation of the liquidity and risk position of the Group, which had deteriorated considerably as a result of the business model of its Irish subsidiary following the Lehman insolvency, as well as the organisational situation in the fields of risk controlling and risk management. In its extraordinary meeting held on 28/29 September 2008, the Supervisory Board approved the key points presented by the Management Board of a credit facility made available by a syndicate of the German financial industry for assuring liquidity. In addition to other personnel matters, the Supervisory Board also decided to terminate the position of Bo Heide-Ottosen on the Management Board with immediate effect. The Supervisory Board arranged to be notified in the following days of the current liquidity situation. Extraordinary meetings of the Supervisory Board were held for this purpose on 3 October and 5/6 and 6 October 2008. In its meeting held on 6 October 2008, the Supervisory Board decided to attempt to achieve a mutually acceptable termination of the position of the chairman of the Management Board and to investigate possible violations of duty of members of the Management Board. Following the resignation of the chairman of the Management Board, the chairman of the Supervisory Board decided on 7 October 2008 to appoint Dr. Axel Wieandt as the new Chairman of the Management Board and Dr. Kai Wilhelm Franzmeyer as the new Treasury Director. In this meeting and also in the meetings which followed in rapid succession, the Supervisory Board extensively considered the current development of the liquidity situation and the status of the negotiations regarding the credit facility. On 17 October 2007, the Supervisory Board decided to appoint Frank Krings to the Management Board. With this appointment, the Management Board was extended to include a Chief Operating Officer in order to assure the necessary restructuring.

In its meetings, the Supervisory Board came to the conclusion that there were no alternatives to the measures decided to support liquidity and the resultant contractual obligations for the Group if the very existence of the Group was not to be endangered. In parallel with the direct rescue measures, the Supervisory Board subsequently turned its attention to the necessary restructuring. Following the extensive change in its make-up, the Supervisory Board committed itself to a clear new start on 17 November 2008 and reconstituted its committees. The Supervisory Board has also consistently carried out this new beginning at the Management Board level. It extensively discussed the restructuring plan submitted by the Management Board and approved this plan at its meeting on 19 December 2008.

Work in the committees

The work of the committees was regularly reported in the meetings of the Supervisory Board.

Remuneration and Nomination Committee The Remuneration and Nomination Committee met on four occasions in the year under review: on 1 February, 4 March, 24 June and 20 December 2008. As a result of the change in the composition of the Supervisory Board, not all members attended all meetings. The figures relate to the attendance of a committee member in relation to the meetings which were held during his period of office.

In the meetings held in February and March, the committee dealt with the compensation structure for Management Board compensation, a corresponding market comparison as well as the composition of the Audit Committee.

In its meeting of 24 June 2008, the committee dealt with the target agreement for members of the Management Board and the definition of new structures for committees of the Supervisory Board.

In its meeting of 20 December 2008, the committee dealt with the contractual relations with the members of the Management Board who had already stepped down from the Management Board.

Audit Committee The Audit Committee met on four occasions in the year under review: on 25 March, 5 May, 12 August and 16 November 2008.

As was the case in the previous year, the work of the Audit Committee focused on accounting control, the audit of the annual financial statements for 2007 and the interim financial statements for 2008 as well as the corresponding reports.

In the meeting held on 25 March 2008, the consolidated financial statements and the individual financial statements, in preparation for adoption by the Supervisory Board, were reviewed with special consideration being given to the impact of the CDO charges, and were discussed with the auditor KPMG and the Management Board. The effects of the current market situation on the financial position as well as the liquidity situation of the Group were also discussed. KPMG and the Internal Audit department also reported on the results of their audits.

In the meeting held on 5 May 2008, the deliberations focused on the interim report and the audit review for the first quarter as well as the financial position of the Group, and in particular the development with regard to structured products.

In the meeting held in August, the Audit Committee deliberated intensively and in detail the six-month financial report, the liquidity situation of the Group, and discussed the audit review with the auditor.

In the meeting held on 16 November 2008, the Audit Committee extensively considered the economic situation of the Company and the effects of the liquidity crisis. The interim report for the third quarter of 2008 and the results of the audit review of the auditor were also discussed during this meeting.

Risk Management and Liquidity Strategy Committee The issues earmarked for the first meeting of the committee in September 2008 were dealt with in the plenary body of the Supervisory Board. No further meetings of the committee were held in 2008; issues which came under its responsibility were dealt with in the plenary body. The first meeting of the committee was held on 26 January 2009 after the new appointments had been made to the Supervisory Board.

Nomination Committee The new committee established in 2008 for nominating successor candidates for the Supervisory Board did not meet in 2008.

Meetings of the Supervisory Board	**Supervisory Board**		**Nomination Committee**		**Audit Committee**	
	Function	Meeting attendance[1]	Function	Meeting attendance[1]	Function	Meeting attendance[1]
Dr. Michael Endres	Member from 17.11.2008	**3 of 3**	Member from 17.11.2008	**1 of 1**		
	Chairman from 6.12.2008		Chairman from 6.12.2008			
Bernhard Walter	Member from 17.11.2008	**2 of 3**				
	Deputy chairman from 6.12.2008					
Bernd Knobloch	Member from 17.11.2008	**3 of 3**				
Dr. h.c. Edgar Meister	Member from 17.11.2008	**3 of 3**				
Siegmar Mosdorf	Member from 17.11.2008	**3 of 3**				
Hans-Jörg Vetter	Member from 17.11.2008	**3 of 3**	Member from 6.12.2008	**1 of 1**		
Manfred Zaß	Member from 17.11.2008	**3 of 3**				

[1] As a result of the changes to the composition of the Supervisory Board, not all members have attended all meetings; the figures relate to the attendances of a committee member in relation to the number of meetings held during his period of office.

Meetings of the Supervisory Board

	Supervisory Board		Nomination Committee		Audit Committee	
	Function	Meeting attendance[1]	Function	Meeting attendance[1]	Function	Meeting attendance[1]
Kurt F. Viermetz	Chairman until 10.10.2008	**14 of 14**	Chairman until 10.10.2008	**3 of 3**		
Prof. Dr. Klaus Pohle	Deputy chairman until 10.10.2008 Chairman 10.10. to 30.11.2008	**20 of 21**	Deputy chairman until 10.10.2008 Chairman 10.10. to 30.11.2008	**3 of 3**	Chairman until 30.11.2008	**4 of 4**
Francesco Ago	Member 18.6.[2] to 11.8.2008	**1 of 1**				
Prof. Dr. Gerhard Casper	Member 18.6.[2] to 13.11.2008	**14 of 14**				
Johan van der Ende	Member 18.6.[2] to 17.11.2008	**15 of 15**				
J. Christopher Flowers	Member from 12.8.2008	**16 of 17**	Member from 12.8.2008	**1 of 1**		
Dr. Frank Heintzeler	Member until 17.11.2008	**20 of 21**			Member until 17.11.2008	**3 of 4**
Antoine Jeancourt-Galignani	Member until 24.7.2008	**6 of 7**			Member until 24.7.2008	**2 of 2**
Dr. Thomas Kolbeck	Member 18.6.[2] to 17.11.2008	**15 of 15**			Member 24.6. to 17.11.2008	**2 of 2**
Dr. Pieter Korteweg	Member until 17.11.2008	**20 of 21**	Member until 17.11.2008	**3 of 3**		
Dr. Renate Krümmer	Deputy chairman 25.7.2008 to 31.3.2009	**16 of 17**			Member 5.7.2008 to 31.3.2009	**2 of 2**
Richard S. Mully	Member from 25.7.2008	**16 of 17**				
Maurice O'Connell	Member 18.6.[2] to 24.7.2008	**1 of 1**				
Thomas Quinn	Member until 17.11.2008	**17 of 21**			Member until 17.11.2008	**3 of 3**
Prof. Dr. Dr. h.c. mult. Hans Tietmeyer	Member 18.6.[2] to 17.11.2008	**15 of 15**				

[1] As a result of the changes to the composition of the Supervisory Board, not all members have attended all meetings; the figures relate to the attendances of a committee member in relation to the number of meetings held during his period of office.
[2] Entry in the by-laws, appointed at the Annual General Meeting on 27.5.2008

Corporate Governance

The further development of the Corporate Governance principles of the Company was also the subject of the meetings. For the year under review, the Supervisory Board reviewed compliance with the recommendations and suggestions of the Corporate Governance Code in line with the statement of compliance in accordance with section 161 of the Aktiengesetz of 12 December 2007. The statement of compliance of the Supervisory Board and the Management Board which was renewed on 6 March 2009 for financial year 2008 is set out in the Corporate Governance report.

As a result of the far-reaching changes in the Supervisory Board in 2008, there was a considerable change in the make-up of the committees of the Supervisory Board. After the new appointments in November, the Supervisory Board considered the issues of independence/qualification, information/meetings, structure and chairmanship. All members of the Audit Committee have the special qualifications prescribed by the German Corporate Governance Code. The structure and make-up of the committees as well as the frequency of meetings have been adjusted to the situation of the Company. The results have been discussed with the Management Board.

Adoption of the financial statements

As was the case in previous years, the Annual General Meeting of 27 May 2008 appointed KPMG AG Wirtschaftsprüfungsgesellschaft (formerly: KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) as the auditor. The Audit Committee and the Supervisory Board had obtained confirmation of the auditors' independence ahead of their proposal. Both bodies had extensively deliberated the choice of auditor and convinced themselves of the high level of qualifications, the audit approach and the control density of the auditor in previous years. The auditor KPMG agreed that it would further expand and strengthen the audit team in order to take account of the changed requirements since the DEPFA acquisition with regard to the audit of the balance sheet, the internal control system and the risk management system.

The auditor KPMG has audited the annual financial statements 2008 prepared by the Management Board and the Management Report with the risk report for financial year 2008, and has awarded them an unqualified auditor's opinion with an additional reference to the threat posed to the going concern assumption. This is also applicable for the consolidated financial statements and the Group Management Reports. Within the framework of its audit duties, the auditor also audited the monitoring systems at the Company for early risk detection. The auditor confirms that the methods defined by the Company for managing, identifying and monitoring the risks taken on by the Group are appropriate and that the Management Reports for the Company and the Group accurately present the risks of future developments. The final discussion of the Management Board with the auditor was also attended by the chairman of the Audit Committee and the chairman of the Supervisory Board.

The report of the auditor was received by the Audit Committee for the Supervisory Board. The Audit Committee has discussed the annual financial statements, the Management Report, the consolidated financial statements and the Group Management Report and, where necessary, has checked them by way of inspecting the accounts. The responsible auditors attended the meeting of the committee. The Audit Committee has explained the results of its own audit to the Supervisory Board and proposed that the annual financial statements and Management Reports with the risk report should be approved. The meeting of the Supervisory Board was also attended by the audit manager of the auditor, who explained the main audit results. After the result of the audit performed by the Audit Committee and its own audit, the Supervisory Board approved the result of the audit of the financial statements. The Supervisory Board has thus adopted the annual financial statements of Hypo Real Estate Holding AG prepared by the Management Board and approved the consolidated financial statements of the Hypo Real Estate Group. In view of the situation of the Company and in agreement with the Management Board, the Supervisory Board proposes that no dividend be paid.

Personnel

There were the following changes in the personnel of the Management Board in the period under review The following persons are no longer members of the Management Board: Bo Heide-Ottosen (as of 29 September 2008), Georg Funke (as of 7 October 2008), Dr. Markus Fell and Frank Lamby (both as of 19 December 2008), Thomas Glynn (as of 30 December 2008), Bettina von Oesterreich, Dr. Robert Grassinger and Cyril Dunne (all as of 31 January 2009). Cyril Dunne and Thomas Glynn are still serving on the Board of Directors of DEPFA BANK plc. Dr. Robert Grassinger stepped down from the Management Board of Hypo Real Estate Bank AG as of 31 March 2009.

With effect from 13 October 2008, the Supervisory Board appointed Dr. Axel Wieandt and Dr. Kai Wilhelm Franzmeyer to the Management Board and appointed Dr. Axel Wieandt as the Chairman of the Management Board of Hypo Real Estate Holding AG. The Supervisory Board also appointed Frank Krings to the Management Board of Hypo Real Estate Holding AG with effect from 20 October 2008, and appointed Manuela Better to the Management Board of Hypo Real Estate Holding AG with effect from 1 February 2009.

There were the following changes in the Supervisory Board Pursuant to resolutions of the Annual General Meeting of 27 May 2008, Francesco Ago, Prof. Dr. Gerhard Casper, Johan van der Ende, Dr. Thomas Kolbeck, Maurice O'Connell and Prof. Dr. Hans Tietmeyer were elected onto the Supervisory Board.

Antoine Jeancourt Galignani and Maurice O'Connell laid down their mandates on the Supervisory Board as of 24 July 2008, and Francesco Ago laid down his mandate on the Supervisory Board as of 11 August 2008.

Dr. Renate Krümmer, Richard S. Mully (as of 25 July 2008) and J. Christopher Flowers (as of 12 August 2008) were appointed by a court decision to the Supervisory Board.

Kurt F. Viermetz laid down his mandate on the Supervisory Board as of 10 October 2008. The following persons have also laid down their mandates on the Supervisory Board: Prof. Dr. Gerhard Casper (as of 13 November 2008), Johan van der Ende, Dr. Frank Heintzeler, Dr. Thomas Kolbeck, Dr. Pieter Korteweg, Thomas Quinn, Prof. Dr. Hans Tietmeyer (all as of 17 November 2008), Prof. Dr. Klaus Pohle (as of 30 November 2008), Richard S. Mully, J. Christopher Flowers (all as of 27 March 2009) as well as Dr. Renate Krümmer (as of 31 March 2009).

With effect from 17 November 2008, Dr. Michael Endres, Bernd Knobloch, Dr. Edgar Meister, Sigmar Mosdorf, Hans-Jörg Vetter, Bernhard Walter and Manfred Zaß were appointed by the court to the Supervisory Board of Hypo Real Estate Holding AG. The Supervisory Board elected Dr. Michael Endres as Chairman of the Supervisory Board in its meeting of 6 December 2008, and also appointed Bernhard Walter as Deputy Chairman. Dr. Michael Endres, Bernd Knobloch, Dr. Edgar Meister and Hans-Jörg Vetter were elected onto the Supervisory Board of Hypo Real Estate Bank AG with effect from 6 December 2008.

On behalf of the Supervisory Board, I would like to thank all employees for their strong personal commitment and their work evening particular during the crisis of the Company. An expression of thanks also goes to the new Management Board, who made considerable progress in the stabilisation and reorganisation of the Company within a short time. The Management Board and Supervisory Board will do everything in their power to ensure the Company's future.

Munich, April 2009

For the Supervisory Board

Dr. Michael Endres
Chairman

Corporate Governance Report

The Management Board and Supervisory Board consider that compliance with good corporate governance is a fundamental precondition for regaining the confidence of business partners, employees, shareholders and investors of the Hypo Real Estate Group. The Management Board and Supervisory Board of Hypo Real Estate Holding AG are thus committed to good corporate governance to a considerable extent.

The new requirements of the code addendum of 6 June 2008 had to a large extent already been implemented in the Hypo Real Estate Group. The Company follows the recommendation that the compensation system for the Management Board, including the key contact elements, should be determined and regularly reviewed by the plenary body of the Supervisory Board. Interim (six-months') and any quarterly financial reports will also be discussed with the Management Board by the Supervisory Board or its Audit Committee before they are published.

The shareholdings of members of the Management Board and the Supervisory Board overall account for less than 1 % of the shares issued by the Company. A list disclosing transactions of senior executives in accordance with section 15 a WpHG is set out in the notes to the consolidated financial statements.

The Company does not have any stock option programmes and similar security-based incentive systems. An incentive compensation programme existed at DEPFA BANK plc for 2008; this is described in greater detail in the notes to the consolidated financial statements.

The members of the Management Board and Supervisory Board and their corresponding mandates are listed in the "Mandate" chapter in the service part. With the Remuneration Committee, the Nomination Committee, the Audit Committee and the Risk Management and Liquidity Strategy Committee, the Supervisory Board has set up four standing committees whose members are specified in the report of the Supervisory Board.

As was the case in the previous year, in their statement of compliance of 6 March 2009, the Management Board and Supervisory Board explain the variances from the recommendations of the German Corporate Governance Code.

Compensation Report

The Compensation Report is included in the Management Report.

Statements of compliance of the Management Board and the Supervisory Board of Hypo Real Estate Holding AG with regard to the German Corporate Governance Code in accordance with section 161 AktG

We are providing the following statements of compliance in accordance with section 161 Aktiengesetz with regard to the German Corporate Governance Code on the basis of the principle of "comply or explain". Since the last statement of compliance of 12 December 2007, Hypo Real Estate Holding AG has complied, and will continue to comply, with the recommendations of the "Government Commission German Corporate Governance Code" in the prevailing version, with the following exceptions:

Code point 2.3.2 The Company does not follow the recommendation for using electronic means for convening the Annual General Meeting together with all the documents relating to convening the Annual General Meeting. Because the shares of Hypo Real Estate Holding AG are bearer securities, we consider that this approach for communication is not very practicable.

Code point 3.8 The Company has so far not followed the recommendation for agreeing excesses for the D&O insurance for the Management Board and Supervisory Board because such an approach primarily serves to cover the Company itself. Pursuant to a resolution of the Supervisory Board, the Company will, however, introduce an excess for the members of the Supervisory Board in 2009.

Code point 4.2.3 The Company does not follow unreservedly for all members of the Management Board the recommendation that, when contracts are signed with members of the Management Board, it is necessary to ensure that payments to a member of the Management Board, upon premature termination of that member's activity on the Management Board, without a compelling reason and including ancillary benefits, should not exceed the value of two annual remunerations (severance payment cap) and that not more than the remaining term of the employment agreement should be remunerated. The contracts signed before 2007 do not include a severance payment cap. Contracts with members of the Management Board signed since the year 2007 generally include a severance payment cap, so that, in the event of premature termination of a member's activity on the Management Board, the severance payment including ancillary benefits does not exceed the value of two annual remunerations without a compelling reason. However, the second requirement of the recommendation, namely that not more than the remaining term should be remunerated, is followed by the Company only for the new contracts with members of the Management Board signed in 2009.

Code point 5.4.6 The recommendation that profit-linked remuneration should be granted to the members of the Supervisory Board is not followed by the Company. Independence and neutrality in advising the Management Board and exclusive orientation on the interests of the Company are best guaranteed by way of fixed remuneration for the Supervisory Board.

Code point 5.6 An efficiency review has not been carried out for the year 2008 because most of the members of the Supervisory Board were only appointed as of 17 November 2008.

Code point 7.1.2 The recommendation for disclosing the consolidated financial statements within a period of 90 days after the end of the financial year is not followed by the Company for the consolidated financial statements 2008 because the Company attaches absolute priority to extensively preparing and assuring the quality of the consolidated financial statements after the events of 2008, which were characterised by rescue actions in a crisis affecting the very existence of the Company as well as the replacement of all members of the Management Board and most of the members of the Supervisory Board. It is thus envisaged that the consolidated financial statements will only be published on 29 April 2009.

Munich, 6 March 2009

The Management Board　　The Supervisory Board

The Shares

The market year 2008: in the grip of the financial crisis

Within the context of the financial market crisis which was becoming even more serious, the leading international markets at the beginning of 2008 embarked on a downward trend which continued throughout the entire year. At the end of the year, the markets recovered somewhat, but the losses on the stockmarkets were nevertheless considerable.

The US markets reported one of the weakest market years in history. Compared with the previous year closing, the Dow Jones industrial average index declined by around 34 %, and the S & P 500 index closed the year 2008 with a loss of approx. 39 %.

The German leading indices also suffered massive losses as a result of the worldwide financial crisis. Accordingly, the DAX index fell from approx. 8,000 points at the start of the year to a low of approx. 4,000, and recovered slightly to 4,810 points by the end of the year. The main German stock index accordingly closed the year with a loss of 40 %. Only the year 2002 has seen more significant losses in the DAX, namely 44 %. In the year under review, the MDAX, in which the shares of Hypo Real Estate Holding AG have been listed since 22 December 2008, lost 43 %. The MDAX is the index of Deutsche Börse which comprises 50 mid caps, and follows directly behind the DAX as a benchmark index.

As a result of the far-reaching effects of the US mortgage crisis and the resultant situation on the international financial markets, bank and insurance stocks reported by far the most serious losses in terms of share prices, with extreme volatility of more than 50 % on a single day in certain cases. The Prime Banks bank index fell by 71 % in the course of the year, and the European bank index DJ Euro STOXX Banks fell by 64 %.

Hypo Real Estate shares have been severely hit

In 2008, the shares of Hypo Real Estate Holding AG (ISIN DE0008027707/WKN 802770) lost around 90 % of their value. At the start of the year, the shares were still trading at around € 35. However, in connection with the provisional results for 2007 which were published on 15 January, the Company was exposed to a drastic and negative price reaction when impairments in relation to structured securities, restrictions in new business in the field of commercial real estate financing and also a dividend cut were announced. In an extremely nervous climate, there was also considerable negative speculation, which placed the share price under further pressure.

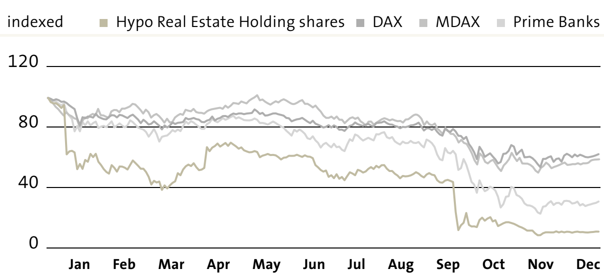
Key facts about Hypo Real Estate Holding shares in 2008

WKN ordinary shares		802 770
ISIN ordinary shares		DE 000 802 770 7
SE code		HRX
Number of listed shares as of 31.12.2008	units	211,084,520
Number of ordinary shares as of 31.12.2008	units	211,084,520
Average number of listed shares in 2008	units	204,643,157
Initial listing as of 6.10.2003	in €	11.25
High 2008 (XETRA closing prices of the Frankfurt stock exchange)	in €	35.00
Low 2008 (XETRA closing prices of the Frankfurt stock exchange)	in €	2.12
Closing price on 31.12.2008 (XETRA closing prices of the Frankfurt stock exchange)	in €	3.05
Market capitalisation as of 31.12.2008[1]	in € million	644
Earnings per share	in €	−25.85
Known shareholders with a stake of more than 5 %		Grove International Partners
		Close Trustees (Cayman) Limited
		Orbis Investment Management Ltd.

[1] Based on closing prices as of 30.12.2008

Despite a temporary slight recovery, the shares, within the context of the US mortgage crisis, were not able to escape the effects of the general downward trend of the markets as the year progressed, and performed roughly in line with the DAX and the Prime Banks index for large periods of the third quarter. In September, as a result of the insolvency of Lehman Brothers and the resultant exacerbation of the worldwide market turmoil, the money and capital markets rapidly dried up; towards the end of the third quarter, this resulted in liquidity problems posing a threat to the very existence of DEPFA BANK plc, a subsidiary of Hypo Real Estate Holding AG. This shortage and the need for rescue measures of a syndicate from the German credit and insurance industry and the Bundesbank on 29 September resulted in a further considerable loss affecting the value of the shares. At the end of the year, the shares were trading at € 3.05.

Share price development in 2008



Public acquisition offer of the group of investors coordinated by J. C. Flowers

On 16 April 2008, a group of investors coordinated by J.C. Flowers & Co. LLC decided to submit a voluntary public offer to the shareholders of Hypo Real Estate Holding AG via an acquisition vehicle to acquire 50,076,000 shares of Hypo Real Estate Holding AG; this offer was published on 23 May 2008. This was equivalent to 24.9 % of all outstanding shares at that time, disregarding the additional shares to be issued in August 2008 after conversion of the mandatory convertible bond issued for partially financing the DEPFA acquisition. The offer price was € 22.50 in cash per share of Hypo Real Estate Holding AG, and represented a premium of 25.3 % in relation to the volume-weighted three-month average price (closing prices XETRA) of the day before 16 April (€ 17.95) and 21.8 % in relation to the last closing price. The acquisition offer was considerably over-subscribed, and the group of investors coordinated by J.C. Flowers acquired 24.9 % of the share capital at that time of Hypo Real Estate Holding AG for a price of € 22.50 per share. The entry of the financial investors was intended to stabilise the shareholder base of Hypo Real Estate Holding AG and support the long-term strategic as well as operational development.

The additional shares issued in August 2008 as a result of the conversion of the mandatory convertible bond issued for partially financing the DEPFA acquisition resulted in a dilution of the shareholding.

Change of shares from the DAX to the MDAX

With effect from 22 December 2008, Deutsche Börse decided to delist the shares of Hypo Real Estate Holding AG from the DAX on the basis of the Fast-Exit rule, because the market capitalisation of the shares no longer satisfied the criteria for remaining in the DAX. The shares have been listed in the MDAX since that time.

Analyst coverage

At the end of 2008, 30 analysts provided coverage for the shares of Hypo Real Estate Holding AG, two analysts fewer than was the case one year previously. As of 31 December 2008, there were the following recommendations for the shares:

Analyst recommendations

as of 31 December	2008	2007
Buy/outperform	1	23
Neutral/market performance	4	7
Sell/underperform	25	2
Total	**30**	**32**

Dividend proposal

In view of the situation of the Company, the Management Board and Supervisory Board will propose to the Annual General Meeting on 13 August 2009 that no dividend should be paid for financial year 2008.

Financial Review

Macro-economic Conditions

2008 was characterised worldwide by massive macro-economic problems which grew ever more acute, especially after September 2008. The financial crisis has meanwhile extended to other sectors and thereby the entire global economy.

Accordingly, based on estimates of the EIU (Economist Intelligence Unit), global economic growth in 2008 declined by almost 50 % to only 2.1 % compared with the previous year. The rate of growth weakened appreciably in all major economies. In the USA, real growth of 1.2 % was reported for GDP, compared with a figure of 1.4 % in Germany. In Asia, the rate of growth overall declined to 3.4 %. Even China, which still reported relatively robust growth of 9 %, failed to achieve double-digit growth for the first time since 2003.

A noticeably expansionary monetary policy worldwide was an important contributor in supporting the economy. In the USA, key interest rates were reduced in several stages over the course of the year to the all-time low of 0.25 %, having started the year at 4.25 %. The European Central Bank maintained its key interest rate at a constant 4.0 % in the first half of the year, and even raised it temporarily by 25 basis points in July 2008, due to the risks of inflation which were mainly attributable to the price of oil. Only after the turmoil on the financial markets in the autumn were rates in the Euro zone cut in mid-October, in several stages to a level of 2.5 % at the end of the year. This expansionary monetary policy was continued at the beginning of 2009. In key industrialised countries, this monetary policy was accompanied by the adoption of support measures of considerable volumes in order to support the economy.

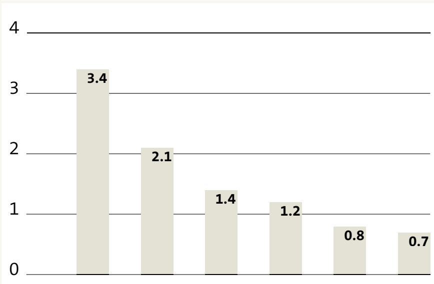
The oil price had risen by more than 50 % in 2007, and oil was trading at around US $ 100 at the end of 2007; the price of oil peaked at an all-time high of almost US $ 146 for Brent crude on 11 July 2008. There followed, however, a fall to an extent which was unforeseeable; at the end of the year, the price had fallen to US $ 36.24, somewhat less than one quarter of the peak. This meant that inflationary pressure weakened appreciably after the first half of the year. This was a necessary precondition particularly for the European Central Bank for the rate cuts detailed above.

Financial markets

The events of 2008 posed the most serious challenge to the global financial markets since the end of the Second World War. The global financial market crisis which was initially triggered by the US mortgage crisis escalated in the third quarter with the collapse of the US investment bank Lehman Brothers, and resulted in a massive loss of confidence on the worldwide financial and capital markets. The at times extensive measures undertaken by many industrialised countries, to stabilise and protect the finan-

Real GDP growth 2008

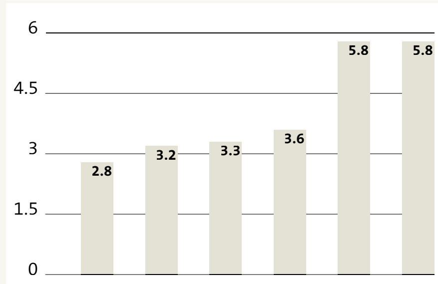
in %



Source: EIU (Economist Intelligence Unit)

Consumer price inflation 2008

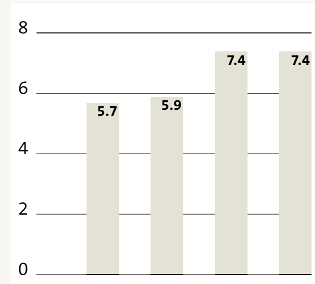
in %



Source: EIU (Economist Intelligence Unit)

Unemployment rates 2008

in %



Source: OECD Economic Outlook, No. 84, November 2008 cial markets, while having no doubt prevented further serious turmoil, have so far been unable to reduce the volatility of the markets or guarantee an adequate supply of liquidity.

State intervention has taken place in the form of support measures provided by the US government for the real estate financiers Freddie Mac and Fannie Mae as well as for the insurance group AIG. The collapse of the US investment bank Lehman Brothers had a seriously negative impact on the situation and almost led to a complete standstill of the entire interbank market.

In addition, state rescue measures also became necessary for other banks, including Merrill Lynch and Wachovia. The two remaining independent investment banks Goldman Sachs and Morgan Stanley converted into commercial banks, and are now subject to more stringent regulatory supervision. The crisis also had an increasing impact in Europe. Institutions such as HBOS, Fortis, Dexia, Commerzbank and also the Hypo Real Estate Group had to be supported by rescue packages from the state, central banks or the private banking sector. The governments of many major industrialised countries such as the USA, Great Britain, France and Germany have, therefore, made available far-reaching rescue packages which the banks are able to access in order to improve their liquidity and equity and which in total amount to figures running into trillions. The measures consist of liquidity lines, guarantees, the provision of core capital, nationalisation and the buying-up of non-performing assets. In order to stabilise the stock markets, short-selling was prohibited for certain equities.

Sector-specific Conditions

Commercial real estate finance

As a result of the financial market crisis, the need to assure the liquidity of all investors in the commercial real estate financing market became particularly important. The situation was exacerbated as a result of declining values of collateral provided in the case of highly leveraged financing arrangements. The collapse of the securitisation markets blocked further activities, because the credit institutions were no longer able to transfer risk.

The situation in the core markets of the Group was mixed. Accordingly, the total value of the entire property holdings in Great Britain fell by 26 % in 2008, and was thus 36 % lower than the highs seen in the summer of 2007. Spain reported losses of approx. 15 %, and the USA recorded a loss of more than 10 %. On the other hand, property values in Germany remained largely stable. The decline in capital values for the whole of Europe, based on prime rents and prime yields, is estimated to be a mixed total loss of approx. 10 %.

Viewed in global terms, the number of transactions fell by 59 % in the full year. The countries which were the hardest hit were the USA, Australia and New Zealand. In these countries, property transactions amounted to only US$ 496 billion, compared with US$ 1.04 trillion in 2007. The transactions declined by 75 % in the USA, by 60 % in Great Britain and by 48 % in Western Europe. In the fourth quarter, the global decline amounted to 80 % compared with the fourth quarter of 2007.

Many banks, investors and funds which are important for the markets had to cope with problems such as equity shortages, problems with refinancing and impairments. Weaker demand for commercial properties resulted in lower rents and higher vacancy rates, whereas the number of foreclosures increased at the same time. These developments had an impact on property valuations, and resulted in major problems for the balance sheets of investors. Accordingly, provisions for losses on loans and advances increased in the balance sheets of many banks. New business came to an almost complete standstill in the third quarter; this was followed in the fourth quarter by a very moderate and selective return of supply and demand.

Public sector and infrastructure finance

Public sector finance In general, the public sector finance market within Europe is not homogeneous. This means that only occasional market distortions occurred in the public sector finance market in the first half of the year, although margins were already rising. This market was only affected by major problems in the second half of 2008.

In the period following the crisis month of September, some traditional investment banks withdrew from the major public sector finance markets – Great Britain, Germany, France, Italy and the Iberian Peninsula. At the same time, the specialist institutions operating in this sector experienced massive refinancing difficulties, and this meant that very little liquidity was available in December 2008. The only participants who were able to operate at that time were state-controlled banks and agencies as well as a small number of regional commercial banks. In some EU countries, e.g. in Germany and, to a lesser extent in France, the Iberian Peninsula and in Scandinavia, the public sector at that time was not compelled to raise unscheduled major amounts. This was the reason why the effects of the crisis were not felt so strongly at that time by public sector borrowers in these countries. For countries with higher levels of debt, such as Italy, Greece, Hungary, Ukraine and Iceland, there were rating downgrades and an increase in risk premiums, which meant that debt servicing became even more expensive for these countries. As a cautionary measure, many investors avoided the capital markets. The demand for funding declined and new business was conducted mainly only with long-standing customers.

Towards the end of 2008, the capital markets offered customers very limited funding options; the increasing risk aversion of investors reduced the sources of funding enormously, and hardly any transactions were conducted in securitised papers and structured bonds, even by the established institutions.

Infrastructure finance By comparison, the full effects of the financial market crisis were felt last by the market for infrastructure projects due to the long-term planning horizons and development lead times which are normal in this market. Nevertheless, the supply of debt funding has now also declined in this market, because numerous banks have reduced their levels of new business as a result of savings measures. Because the ratings of most credit insurers (so-called monoliners) have been considerably downgraded, many borrowers of infrastructure funding experienced additional problems in accessing debt. This capacity adjustment was offset to a certain extent by state borrowings, which attempted to fill the gap attributable to the absence of commercial funding. In comparison, it was easier to procure funds by way of shareholders' equity because many funds are still active in the field of infrastructure measures. Revenues in the infrastructure field are comparatively recession-proof, and also attracted other investors who are now collecting capital for infrastructure projects. Interest in this sector is still strong, and certain key segments have not been affected by the financial market crisis, like objectives for the construction of renewable energy installations. There are still long-term funding possibilities for well-structured projects of quality clients. However, these are available at much higher financing costs because the refinancing costs for banks have increased considerably and also because pricing now considerably takes account of the fact that the majority of projects are rated between A and BBB. The risk premiums for measures with a comparatively low risk are 200 basis points and higher. Transactions with a higher risk profile, such as new toll roads, pay a premium considerably in excess of this figure. In addition to the higher financing costs, a further effect of the financial market crisis is that transactions which require borrowings in excess of a certain defined limit are no longer being financed. Whereas this limit depends on the specific market, it is fundamentally the case that it is very difficult to fund transactions with a volume of more than € 1 billion. This has had the direct consequence that public sector and private investors have postponed the sale of large volume infrastructure measures. Many banks have thus been compelled to extend the financing arrangements for such projects.

Capital markets

The consequences of the financial crisis described above have resulted in a massive decline in liquidity on the capital markets; this has meant that record collapses have been seen on the security markets and has resulted in fears of a global systemic bank collapse.

This resulted in a situation in which various related markets came to a standstill, when asset-backed securities became impossible to sell irrespective of the price at which they were offered. The risk premiums for instance for AAA commercial mortgage-backed securities (CMBS) have risen from 70 basis points at the end of 2007 to more than 700 basis points. For AAA asset-backed securities (ABS), the risk premium has more than doubled from 550 to 1,300 basis points, and the costs for covering risks attributable to industrial bonds (iTraxx Europe Industrials) rose in the same time from 55 to 83 basis points. The market for new issues of securitised securities was frozen throughout the entire year. At the same time, there was a massive increase in the risk premiums for government bonds in all markets.

Major legal factors for business

As a result of the support measures which became necessary, the Financial Markets Stabilisation Act (Finanzmarktstabilisierungsgesetz; FMStG) was the most significant law for the Hypo Real Estate Group in 2008; this act was promulgated on 17 October 2008. It contains a range of measures for stabilising the financial market. The main features of the Act are support measures provided by the financial market stabilisation fund, a special fund of the Federal Government, recapitalisation, the granting of guarantees and arrangements for accepting risk (please also refer to the presentation under “Major events” in the Group Management Report).

The act for limiting the risks associated with financial investments (Risk Limiting Act) also came into force. It governs the form of credit and collateral agreements and also the assignation of credit receivables. It also comprises changes with regard to the notification of major equity participations in companies in accordance with the Securities Trading Act.

On 12 February 2009, the Bundestag approved the draft law for enhancing Pfandbrief Law. The aim of the act is to strengthen the German Pfandbrief. The Act will also include regulations governing financial holding companies.

The government draft of an act for implementing the shareholders’ guidelines has also been presented; this has to a large extent been adopted and will probably come into force on 1 November 2009. It comprises numerous changes regarding the convening of the Annual General Meeting, participation in the Annual General Meeting, proxy voting rights and clarifications regarding the calculation of deadlines.

Law for further stabilisation of the financial market (Financial Markets Stabilisation Amendment Act, Finanzmarktstabilisierungsergänzungsgesetz – FMStErG)

On 18 February 2009, the Federal Government initiated the legislation procedure in the Federal Cabinet for the Financial Markets Stabilisation Amendment Act (FMStErgG). The first reading of the draft act was held in the Bundestag on 6 March 2009. The Bundestag approved the draft act with a clear majority on 20 March 2009. It is due to be considered in the Bundesrat on 3 April 2009.

According to the draft act, it will thus be possible for stabilisation measures to be taken quickly and effectively and for take overs to be facilitated for the purpose of stabilisation. In addition, the draft act would also create the possibility, for a very limited period, for shares in a company in the financial sector and security portfolios to be nationalised for the benefit of the Federal Government or the financial market stabilisation fund in return for reasonable compensation in order to assure the stability of the financial market. Nationalisation will only be considered as a final resort if other legally and financially reasonable solutions for assuring the financial market stability are not available.

Company-specific Conditions

Strategy

Organisational and legal structure of the Group In the year under review, the Group structure of the Hypo Real Estate Group mainly comprised the parent company Hypo Real Estate Holding AG and the operating subsidiaries Hypo Real Estate Bank AG, DEPFA BANK plc and DEPFA Deutsche Pfandbriefbank AG. In November 2008, Hypo Real Estate Bank International AG was merged with Hypo Real Estate Bank AG with retroactive effect from 1 January 2008. The Holding is responsible for overall strategic management of the Group. The Group-wide tasks are carried out in the Holding. Structurally, the areas of responsibility are broken down into three operating segments, to a large extent independent of the legal distinction in subsidiaries. The aim is to further simplify the legal structure as part of the process of restructuring the Group.

Disclosures in accordance with section 315 (4) of the German Commercial Code (Handelsgesetzbuch, HGB) with explanations of the Management Board in accordance with section 120 (3) Sentence 2 German Stock Corporation Act (Aktiengesetz, AktG) The subscribed capital of Hypo Real Estate Holding AG in the amount of € 633,253,560 consists exclusively of 211,084,520 no-par-value bearer shares. The ordinary shares are no-par-value shares, and represent a nominal value of € 3.00. The shares confer equal rights.

On 20 August 2008, the capital of the Company was increased by € 29,928,774 by way of the mandatory conversion of bonds into shares of the Company. The former contingent capital, which had been created pursuant to the resolution of the Annual General Meeting of 4 June 2004, was thus completely exhausted. The bonds were issued on 23 July 2007 by Hypo Real Estate Finance B.V., Amsterdam, in which the Company indirectly owns a majority interest, in the form of a subordinated mandatory convertible bond for € 450 million due on 20 August 2008.

In the USA, shares of the Company can be traded in the form of American Depositary Receipts (ADRs). The ADRs are backing certificates for shares of Hypo Real Estate Holding which are issued by an American bank and which are held in trust in the securities deposit account of a German bank. The ADRs are exempted from registration at the American Securities and Exchange Commission (SEC) and are not listed on a stock exchange. One ADR corresponds to one share of the Company. ADR holders are entitled to vote in relation to the shares represented by the ADRs. There are no special rights, particularly such as might confer powers of control. The Management Board has decided to terminate the ADR programme in 2009.

There are no restrictions relating to the voting rights for transfer of shares, or, to the extent that such restrictions might result from agreements between partners, the Management Board is not aware of any such restrictions. The Management Board is currently not aware of any interest in the capital in excess of 10 % of the voting rights. Following a public acquisition offer, a group of investors coordinated by J.C. Flowers acquired 24.9 % of all the shares which existed at that time of Hypo Real Estate Holding AG. However, as far as the Company is aware, none of the above-mentioned investors exceeds 10 % of the voting rights on a stand-alone basis.

In line with legal requirements, all notifications relating to equity participations are set out on the Company's home page (http://www.hyporealestate.com/795.html). The Irish trust responsible for winding up the incentive compensation programme of DEPFA BANK plc, currently still holds 196,084 shares in Hypo Real Estate Holding AG. These are mainly shares which have already been allocated but which have not yet become vested. No voting rights are exercised in relation to the shares held by the trust. Apart from the above, the Company is not in possession of any reliable information regarding shareholders and thus any private shareholdings of employees because the shares of Hypo Real Estate Holding AG are bearer shares.

The members of the Management Board of the Company are appointed and dismissed by the Supervisory Board in accordance with the stipulations of section 84 of the Aktiengesetz. The Articles of Incorporation of Hypo Real Estate Holding AG do not have any stipulations in this respect which differ from the law. Contrary to the basic statutory rule in section 179 (1) of the Aktiengesetz, the Articles of Incorporation in section 17 specify that the Annual General Meeting (unless a higher majority is specified by law) is able to adopt resolutions regarding changes to the Articles of Incorporation with a simple majority of votes which are cast. In those cases in which the law additionally specifies a capital majority, a simple majority of the share capital represented at the point at which the resolution is adopted shall be sufficient (if this is legally admissible). Section 8 (4) of the Articles of Incorporation also authorises the Supervisory Board to adopt changes to the Articles of Incorporation which relate only to the version. The possibility provided by the Articles of Incorporation for a lower capital majority in the case of changes to the Articles of Incorporation provide the Company and the Annual General Meeting with greater flexibility, and is consistent with standard legal practise.

Pursuant to the resolution of the Annual General Meeting of 27 May 2008, section 3 of the Articles of Incorporation governs the authorisation of the Management Board for issuing new shares as follows:

(3) The Management Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions until 27 May 2010 by a total of up to € 180,000,000.00 by way of issuing up to 60,000,000 new no-par-value bearer shares in return for cash contributions. A subscription right has to be granted to the shareholders. The new shares can also be offered to one or more credit institutions on condition that they offer them to the shareholders (indirect subscription right).
The Management Board is authorised, with the approval of the Supervisory Board on each occasion, to exclude fractions from the subscription right of the shareholders and also to exclude the subscription right of the shareholders to the extent necessary to grant a subscription right for new shares to the holders of the conversion or option rights of the Company which were in issue at the point at which the authorised capital was utilised and which were issued in connection with the issue of debt instruments to the extent to which they would be entitled after the conversion or option right had been exercised or after the conversion obligation had been satisfied.
The Management Board is authorised, with the approval of the Supervisory Board, to determine the further contents of the conditions of the share issue under Aktienrecht (German law on stock companies). In the case of issues of new shares, a profit participation which differs from that set out in section 60 (2) sentence 3 AktG can be defined for these new shares.

(4) The Management Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital on one or more occasions until 27 May 2010 by a total of up to € 60,000,000.00 by way of issuing up to 20,000,000 new no-par-value bearer shares in return for cash contributions. A subscription right has to be granted to the shareholders. The new shares can also be offered to one or more credit institutions on condition that they offer them to the shareholders (indirect subscription right).
The Management Board is authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders if the issue amount of the new shares is not significantly lower than the market price. However, this authorisation is applicable only on condition that the shares issued with the exclusion of subscription rights in accordance with section 186 (3) sentence 4 AktG (German Stock Corporation Act) together with shares and debt instruments with a conversion right, conversion obligation or option rights as well as equivalent instruments which are issued or sold during the term of this authorisation with the exclusion of the subscription rights of the shareholders, with the direct or corresponding application of section 186 (3) sentence 4 AktG, in total do not exceed 10 % of the Company's share capital.
In addition, the Management Board is authorised, with the approval of the Supervisory Board, to exclude fractions from the subscription right of the shareholders and also to exclude the subscription right of the shareholders to the extent necessary to grant a subscription right for new shares to the holders of the conversion or option rights of the Company which were in issue at the point at which the authorised capital was utilised and which were issued in connection with the issue of debt instruments to the extent to which they would be entitled after the conversion or option right had been exercised or after the conversion obligation had been satisfied.
The Management Board is authorised, with the approval of the Supervisory Board, to determine the further contents of the conditions of the share issue under Aktienrecht (German law on stock companies). In the case of issues of new shares, a profit participation which differs from that set out in section 60 (2) sentence 3 AktG can be defined for these new shares.

(5) The contingent share capital of up to € 60,000,000.00 has been carried out in relation to the share capital by way of issuing up to 20,000,000 new no-par-value bearer shares ("contingent capital 2008/I"). The contingent capital increase will only be carried out to the extent to which the owners or holders of conversion and/or option bonds, profit-sharing rights and/or adjustment bonds (or combinations of these instruments) which are issued by 27 May 2010 by the Company or by the Company's direct or indirect equity participations under the authorisation I adopted under item 11 on the agenda at the Annual General Meeting of 27 May 2008 or to the extent to which holders with a conversion obligation meet their conversion obligation and if a cash settlement is not provided or if the Company's treasury shares are not used for settling the obligation.
The new no-par-value bearer shares participate in the profits from the beginning of the financial year in which they are created as a result of the exercising of conversion rights, option rights or the fulfilment of conversion obligations.
The Management Board is authorised to fix the further details for carrying out the contingent capital increase.
(6) The share capital is increased, subject to a contingency, by up to € 60,000,000.00 by way of issuing up to 20,000,000 new no-par-value bearer shares ("contingent capital 2008/II"). The contingent capital increase is only carried out to the extent to which the holders of conversion and/or option bonds, profit-sharing rights and/or adjustment bonds (or combinations of these instruments which are issued by 27 May 2010 by the Company or by the Company's direct or indirect equity participations under the authorisation II adopted under item 12 on the agenda at the Annual General Meeting of 27 May 2008 or to the extent to which holders with a conversion obligation meet their conversion obligation and if a cash settlement is not provided or if the Company's own shares are not used for settling the obligation.
The new no-par-value bearer shares participate in the profits from the beginning of the financial year in which they are created as a result of the exercising of conversion rights, option rights or the fulfilment of conversion obligations.
The Management Board is authorised to fix the further details for carrying out the contingent capital increase.

The Annual General Meeting of 27 May 2008 authorised the Company to buy back up to 10 % of its own shares and to exclude shareholders' subscription rights for up to 5 % of the share capital with regard to some applications. This authorisation extends the scope of action available to the Company and completes the financing options of the Company. It is consistent with standard practise.

There are no major agreements of the Company which are subject to the condition of a change of control resulting from a takeover offer. Such agreements or agreements involving compensation for the possibility of a takeover bid with members of the Management Board or with employees exist only between the Company and the current and former members of the Management Board specified in the following.

The employment agreement of the former Chairman of the Management Board Georg Funke, which has now been terminated, contained a change of control clause. In the event of a change of control, Dr. Axel Wieandt and Frank Krings also have the right to terminate their employment agreement. If this special termination right is exercised, there is a claim for a severance payment in the maximum extent applicable under the German Corporate Governance Code at the point at which the agreement was signed (described extensively in the compensation report from page 45).

Corporate strategy

Hypo Real Estate Group has developed a new corporate concept and is restructuring itself.

In the past, Hypo Real Estate Group had worldwide operations as a senior lender of large volume financing arrangements in the Commercial Real Estate Finance and Public Sector & Infrastructure Finance segments. The Group also operated capital markets and asset management business.

As a business-to-business credit institution, Hypo Real Estate Group does not have a branch network and therefore does not have its own base of customer deposits. Refinancing was dependent on Pfandbriefe and long-term secured financing arrangements and also, to a significant extent, the interbank market and other short-term unsecured instruments. These markets have virtually disappeared as a result of the crisis on the financial markets. Hypo Real Estate Group therefore slid into a situation which posed a risk to its very existence. In consequence, the new Management Board which has been appointed, also with the support of external strategy consultants, has thoroughly reviewed the business model of the entire Group and has developed a new corporate concept.

Objective of the new corporate strategy Hypo Real Estate Group intends to become a reliable player on the market. In order to meet this objective, the Group intends initially to write moderate volumes of new business in the new core operating segments of Commercial Real Estate and Public Sector Finance and to consolidate the existing portfolio. In the field of new business, Hypo Real Estate Group will in future focus on a conservative risk profile and aims to achieve a conservative balance sheet structure; this, unlike the situation in the past, will rely only to a limited extent on unsecured refinancing on the interbank market.

One of the key objectives in the course of the next few years will be to consistently implement the restructuring programme which has been adopted. In particular, Hypo Real Estate Group aims to achieve cost leadership in its core business.

Concentration on core operations A key component of the planned restructuring is for Hypo Real Estate Group to reduce infrastructure financing and capital markets and asset management business to a large extend and to focus on Pfandbrief-eligible business in the fields of commercial real estate and public sector finance.

Commercial Real Estate finance Hypo Real Estate will concentrate on financing existing real estate (“investment loans”) and will withdraw widely from development business. The credit portfolio is to be considerably reduced. 13 of the 18 locations are to be closed, and the number of employees is to be significantly reduced.

Public Sector finance The existing credit portfolio is to be reduced according to the corporate strategy. Foreign locations not belonging to the case business are to be closed, and the number of employees is to be significantly reduced.

Infrastructure finance Hypo Real Estate Group will to a large extent withdraw from infrastructure financing business. The aim is to reduce the credit portfolio to a large extent whilst safeguarding economic interests. The number of employees will be reduced to a minimum level in the near future.

Capital Markets & Asset Management Hypo Real Estate Group will withdraw from Capital Markets & Asset Management. The subsidiaries Collineo Asset Management GmbH and DEPFA First Albany Securities LLC have already been sold. Product areas such as debt restructuring and customer derivatives will be continued in the Public Sector Finance segment within the framework of the new Company strategy.

The new business model will focus on refinancing by means of the German Pfandbrief. The German Pfandbrief in particular is very significant as an exceptionally secure financing instrument, and might become more attractive compared with other covered bonds as well as unsecured refinancing instruments, and will emerge strengthened from the crisis.

Measures for enhancing efficiency and profitability The restructuring of the Group is being accompanied by uniform group-wide risk management, most of which has already successfully been put in place, with harmonised liquidity management including uniform group-wide reporting. Greater transparency will be created with regard to the liquidity and capital requirement as well as risk costs.

A stringent governance structure is also being established. For instance, it has been decided that the Asset Liability Committees will be restructured under the direction of the new Treasury Director. The expansion of a global workout function will provide support for overcoming the consequences of the financial crisis which are spilling over into the real economy. This is also the objective of the envisaged consolidation of the back-office infrastructure of the operating segments.

Simplification of the legal structure of the Group is a further key component of the restructuring programme. In an initial move, Hypo Real Estate Bank International AG was merged with Hypo Real Estate Bank AG. At present, plans to merge DEPFA Deutsche Pfandbriefbank AG with Hypo Real Estate Bank AG are being aimed. The objective of a cost-effective organisation is also supported by a comprehensive project, which is examining options for consolidating the various IT platforms as well as outsourcing.

The management structure in the subsidiaries has been adjusted. At present, all Holding directors have positions as non-executive directors at DEPFA BANK plc and occupy identical positions in the Management Board of Hypo Real Estate Bank AG. This ensures the uniform implementation of the restructuring project as well as the corporate strategy within the Group. At the same time, the second and third management levels have been evaluated/realigned. The Management Board was supported in this respect by an external personnel consultant.

In order to strengthen cooperation throughout the Group, it has been decided that all employees at the location in Munich will be pooled in one building in Unterschleissheim.

Products and business processes

Commercial Real Estate (CRE) The Commercial Real Estate segment comprises the domestic and international business in the field of commercial real estate financing.

Concentration on investment loans In future, Hypo Real Estate Group will concentrate on financing existing real estate (investment loans). At the same time, priority will be given to extending loans for properties in regions in which Pfandbrief refinancing is possible (eligible for cover funds). The volume of new business will therefore be very much dependent on the possibility of obtaining funding on the Pfandbrief markets.

Hypo Real Estate Group will concentrate on Pfandbrief-eligible business. In addition, the Group is prepared to support financing arrangements with a higher lending value if those parts of the loans which cannot be refinanced by means of Pfandbriefe can be passed on directly to specialist investors (e.g. by way of syndication or sale of mezzanine tranches). In addition, the portfolio structure will be adjusted to the target portfolio by way of concentrating new business on the German and European market and by way of a process of reducing existing financing (e.g. reduction at prolongation dates). Of course, customers in other markets will also be supported if they meet the risk and return requirements of Hypo Real Estate Group. The portfolio will be optimised by sales designed to improve earnings.

Withdrawal from development business Hypo Real Estate Group at present also acts as a lender in the project and construction phase for large-volume construction projects. This business offers higher margins than business with investment loans; however, it simultaneously involves higher levels of risk, and is more volatile and more complex. Hypo Real Estate Group will therefore continue to engage only very selectively in development activities.

Reduction of the current credit portfolio The existing credit portfolio in the Commercial Real Estate segment is to be reduced in the medium term with a positive impact on earnings, particularly by way of streamlining the non-strategic portfolio (loans which cannot be refinanced by way of Pfandbriefe).

Withdrawal from nationwide operations This concentration on core business with commercial real estate customers will be accompanied by a process of withdrawal from various locations. Accordingly, the Group will close its German locations in Berlin, Dortmund and Hamburg. Internationally, the current plan is to cease operations by 2011 in Lisbon (Portugal), Copenhagen (Denmark), Manchester (Great Britain), Tel Aviv (Israel), Stockholm (Sweden), Hong Kong (China), Singapore, Madrid (Spain), Milan (Italy) and Mumbai (India). Current plans are for Hypo Real Estate Group to concentrate in future on its locations in Munich, London (Great Britain), Paris (France), New York (USA) and Tokyo (Japan).

Public Sector & Infrastructure Finance (PS & IF) This segment comprises the Public Finance business plus the infrastructure financings.

Concentration on Pfandbrief-eligible public sector finance In future, Hypo Real Estate Group will concentrate its Public Sector Finance segment on Pfandbrief-eligible public sector finance with focus on Germany and Europe. This is based on the assessment that the Pfandbrief market should fundamentally continue to be intact irrespective of the current financial market crisis and that it will become more attractive in future as an investment alternative.

The existing infrastructure financing arrangements cannot be refinanced by way of Pfandbriefe, and such business is accordingly no longer compatible with the planned business model of Hypo Real Estate Group. The Hypo Real Estate Group has therefore decided to virtually discontinue its Infrastructure Finance segment and to reduce the portfolio without any significantly negative impact on earnings.

Discontinuation of unprofitable locations In the Public Sector Finance segment, the Hypo Real Estate Group will also concentrate on a small number of selected locations in line with its new strategic focus. At present, there are plans for customer-related public sector business to be concentrated in Frankfurt (Eschborn), Madrid, Paris and Rome. The other locations will be gradually discontinued.

Capital Markets & Asset Management (CM & AM) The CM & AM segment is very liquidity-intensive and associated with asymmetric risks. As a result of its higher risk profile and higher volatility, it is no longer fully consistent with the planned business model of the Group. The Hypo Real Estate Group has therefore decided to discontinue its CM & AM segment as far as possible. Individual areas which are consistent with the new business model (for instance debt restructuring or customer derivatives) will be allocated to the Treasury/Public Finance segment, where they will be continued.

The sale of Collineo Asset Management GmbH to Sal. Oppenheim jr. & Cie. was agreed in 2008. In February 2009, a contract regarding the sale of the DEPFA First Albany Securities LLC subsidiary which specialises in US municipal bonds which enjoy preferential tax treatment was signed with the US investment bank Jeffries & Company, Inc. The sale closed on 27 March 2009. The two sales constitute initial steps in the direction of disposing of Group businesses no longer compatible with overall strategy.

Steering concept

As a result of the critical situation of Hypo Real Estate Group, management is concentrating on measures designed to assure the existence of the Group. In the course of the next two to three years, this concept will focus on assuring liquidity and solvency as well as improving the risk early warning system.

With regard to liquidity management, the focus is on ensuring that the Group is able at all times to fulfil all payment obligations which become due. At present, this objective can be achieved only with the aid of extensive support measures of a syndicate from the German bank and insurance business and the Bundesbank as well as the financial market stabilisation fund. Since the fourth quarter of 2008, reports with a group-wide liquidity preview for the next few days and months have been prepared on a daily basis. The improved process links various data sources across all subsidiary units and locations.

Solvency, in other words the adequate supply of shareholders' equity, is managed on the basis of the regulatory parameters core capital ratio and equity ratio. Hypo Real Estate Group manages these ratios also on the basis of scenario analyses which, for instance, take account of rating migrations of currency changes. The process of managing shareholders' equity focuses on ensuring that the regulatory requirements as well as the requirements of the rating agencies and business partners for minimum capitalisation are met.

The risk early warning system has been, and continues to be, revised, particularly since the crisis at Hypo Real Estate Group. It is explained in detail in the risk report.

In addition to assuring the existence of the Group, the management concept of Hypo Real Estate Group aims in the long term to enhance the value of Hypo Real Estate Group. This value is enhanced if the return on equity of a management unit exceeds the capital costs of that unit on a sustainable basis. In order to calculate return on capital, the net income according to IFRS is related to average capital (excl. AfS reserve and cash flow hedge reserve). The capital costs are the theoretical costs of capital and define the marginal cost rate for existing and future risk taking. The profitability of new business and the existing portfolio are investigated, with due consideration being given to the economic risk, by comparing return on equity with the capital costs.

Productivity is measured in terms of the cost-income ratio. The cost-income ratio is the ratio between general administrative expenses and operating revenues, comprising net interest income and similar income, net commission income, net trading income, net income from financial investments, net income from hedge relationships and the balance of other operating income/expenses. The aim is to improve the cost-income ratio over the next few years primarily by way of reducing general administrative expenses following the strategic refocusing and restructuring of the Hypo Real Estate Group.

Management Structure of Hypo Real Estate Group

as of 28 March 2009

Hypo Real Estate Holding AG
Munich

Management Board:
Dr. Axel Wieandt, Chairman | Manuela Better | Dr. Kai Wilhelm Franzmeyer | Frank Krings

Hypo Real Estate Bank AG
Munich

Management Board:
Dr. Axel Wieandt, Chairman
Manuela Better
Dr. Kai Wilhelm Franzmeyer
Dr. Robert Grassinger (until 31.3.2009)
Frank Krings

DEPFA BANK plc
Dublin

Non-Executive members
of the Board of Directors:
Cyril Dunne, Chief Executive Officer
Manuela Better
James Campbell
Thomas Glynn
Stephane Rio

DEPFA Deutsche Pfandbriefbank AG
Eschborn

Management Board:
Dr. Matthias Achilles
Dr. Marcel Morschbach

Major events

Measures for stabilising Hypo Real Estate Group Hypo Real Estate Group has received extensive support from a syndicate from the German bank and insurance business and the Deutsche Bundesbank with the involvement of the Federal Government and the financial market stabilisation fund. Liquidity facilities and guarantees were used initially to offset a liquidity shortage which was threatening the very existence of DEPFA BANK plc. The internal relations between DEPFA BANK plc and the remainder of the Group meant that the existence of other companies in the Hypo Real Estate Group was also threatened. In December 2008, the Management Board adopted a strategic reorientation and restructuring of the Hypo Real Estate Group in response to the crisis.

Reasons for the crisis The financial markets crisis, which became decidedly worse in the course of 2008, led to the complete or partial collapse of some capital and financing markets in September 2008. After the US investment bank Lehman Brothers applied for creditor protection, the interbank market in particular, i.e. the market on which banks lend money to each other, came to an almost complete standstill in mid-September 2008. This was due to the continuing loss of confidence between the banks as it was no longer possible to assess the risk of lending on the interbank market due to the possible problems affecting the borrowing bank.

The behaviour of investors changed considerably. Firstly, transactions on the money and interbank market or reverse repos were not prolonged. Secondly, intraday lines, i.e. very short-term credit lines, were stopped. Thirdly, banks such as Hypo Real Estate Group also had to provide higher cash collateral. As a result, DEPFA BANK plc, a wholly owned subsidiary of Hypo Real Estate Holding AG since 2 October 2007, developed liquidity problems which threatened its very existence. DEPFA BANK plc had expanded its business volume in the past. Funding for its operations was dependent to a significant extent on the interbank market and other short-term unsecured funding sources such as, in particular, deposits of US money market funds. Large volumes of funds which were refinanced on a short-term basis were extended in the form of long-term loans. This business model has proved not to be robust in the face of a crisis. In 2008, it was only possible to a very limited extent to generate liquidity by sales of assets as a result of the illiquid markets and considerably wider spreads. Internal relations within the Group, such as receivables, guarantees and letters of comfort, meant that most companies in the Hypo Real Estate Group also had to face a situation which posed a threat to their very existence.

Measures designed to assure the liquidity of the Hypo Real Estate Group At the end of September 2008, in response to the liquidity situation posing a threat to its very existence, Hypo Real Estate Group entered into talks with a syndicate from the German bank and insurance business. The Federal Government, Deutsche Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht and leading representatives of the German credit and insurance industry agreed in two rounds of negotiations to provide additional credit lines for the companies of Hypo Real Estate Group. Support of € 35 billion was agreed in the first round held on 28 September 2008. This support was increased to € 50 billion in the second round on 5 October 2008. The support measures may be detailed as follows:

Deutsche Bundesbank granted a special liquidity line of € 35 billion. On 28 October 2008, Hypo Real Estate Group also submitted an application to the financial market stabilisation fund for a guarantee for liquidity to be provided by Deutsche Bundesbank in an amount of € 15 billion. The financial market stabilisation fund approved this application on 30 October 2008. In return for submitting a bond covered by this guarantee, Hypo Real Estate Group was able to raise further special liquidity aid from Deutsche Bundesbank in an amount of € 15 billion as bridging finance. The average costs of these liquidity lines were more than 250 basis points above the prime refinancing rate of the Deutsche Bundesbank.

Both measures were replaced on 13 November 2008 by the credit lines of € 50 billion made available by the Deutsche Bundesbank and the bank and insurance business. These lines comprise a government-backed loan in the form of liquidity aid of € 20 billion from the Deutsche Bundesbank, the issue of government-backed bearer bonds of € 15 billion eligible for ECB purposes and the issue of secured bonds in the amount of € 15 billion. The agreements with the German financial syndicate, the Deutsche Bundesbank and the Federal Ministry of Finance with regard to the liquidity lines was signed in November 2008. The liquidity lines were made available in full on 13 November 2008. The liquidity aid and the government-backed bearer bonds became due on 31 March 2009. The German government has extended its guarantee for notes issued by Hypo Real Estate Group until 31 December 2009. The extension of the term of the guarantee has also automatically extended the term of an additional € 15 billion in notes which were also subscribed by the consortium. The German Federal Ministry of Finance also extended on 26 March 2009 the term of the guarantee covering the remaining € 20 billion of the liquidity facility until 31 December 2009.

In addition, the financial market stabilisation fund granted a guarantee framework totalling € 52 billion to Hypo Real Estate Group in several stages until the date of preparation. In the first stage, the financial market stabilisation fund provided a guarantee framework of € 20 billion on 21 November 2008. This guarantee framework was topped up by a further € 10 billion to € 30 billion on 9 December 2008 subject to the same conditions and with the same term. Hypo Real Estate Bank AG, which belongs to the Hypo Real Estate Group, was able to utilise the guarantees to be issued by the financial market stabilisation fund for backing bonds to be issued, with repayment due no later than 15 January 2009. On 15 January 2009, the guarantee framework was extended until 15 April 2009. In addition, on 20 January 2009, the financial market stabilisation fund increased the guarantee framework by a further € 12 billion until 12 June 2009. In a further stage, on 11 February 2009, Hypo Real Estate Group received an additional guarantee framework for € 10 billion until 12 June 2009 from the financial market stabilisation fund. Hypo Real Estate Bank AG which belongs to the Hypo Real Estate Group, issued bearer bonds on this basis and thus covered the short- to medium-term liquidity requirements of the Group. These bonds are due for repayment on 14 May 2009. The liquidity served to repay due interbank loans and bonds as well as customer deposits. In addition, the Hypo Real Estate Group is using this liquidity to provide additional collateral to other market participants, central banks and investors. This is due to the distortions, which are extreme in certain cases, on the international financial markets. Hypo Real Estate Bank AG paid to the financial market stabilisation fund a pro rata commitment commission of 0.1 % in relation to that part of the guarantee framework which was not utilised. With regard to issued guarantees, a commission of 1.5 % p.a. was payable until 15 January 2009, and a commission of 0.5 % p.a. was payable after 15 January.

Within the framework of the transaction with the syndicate from the German financial sector and the Deutsche Bundesbank and involving the Federal Government, Hypo Real Estate Holding AG as well as its major subsidiaries have transferred or pledged almost all freely available assets with a total nominal value of approx. € 60 billion as collateral to the collateral trustees of the lenders. In addition, Hypo Real Estate Holding AG has pledged the shares in Hypo Real Estate Bank AG, DEPFA Deutsche Pfandbriefbank AG and DEPFA BANK plc as collateral for the Federal guarantee.

Restructuring and reorientation of Hypo Real Estate Group

On 19 December 2008, the Management Board and Supervisory Board of Hypo Real Estate Group adopted a resolution regarding the strategic reorientation and restructuring of the Group. The Company is adapting its business model to the changed conditions on the capital markets and the increasing challenges in the field of real estate business. The aim of the strategic reorientation is to position Hypo Real Estate Group as a leading specialist real estate and public sector financier with a focus on Germany and Europe with Pfandbrief-based refinancing. The structural cost base is being reduced, and the balance sheet structure and risk profile are being improved. The Group structure is to be simplified further. The corresponding measures will be implemented in the course of the next three years.

In the field of commercial real estate financing, the Group will position itself as a partner for real estate investors in Germany and the key European markets. New business in this field in future will be generated from Munich, London and Paris. In public sector finance, future activities will focus on selected primary market business in the Pfandbrief-eligible markets of Europe and also on managing the existing business. The locations of this segment will be centralised as part of this process. There are no plans for any new business in infrastructure finance. The capital market business and trading business which do not fit in with the business model will be discontinued. Plans to sell non-strategic activities are being considered. Customer-based derivative business will be continued.

The altered business model will be accompanied by a decline in current annual costs of around € 200 million by 2011, and by around € 250 million by 2013. The number of employees will reduce from the current figure of around 1,800 to approx. 1,000 over the next three years. Two-thirds of these affected jobs are located outside Germany. With the completion of the planned IT investment programme, a further approx. 200 jobs will disappear by 2013. The aim of this investment programme is to harmonise and standardise the IT landscape in Hypo Real Estate Group.

Following the merger of the former Hypo Real Estate Bank International AG with Hypo Real Estate Bank AG, a further step will involve the merger of DEPFA Deutsche Pfandbriefbank AG with Hypo Real Estate Bank AG.

In addition, Hypo Real Estate Group has pledged to review compensation systems for their incentive effect and commensurateness and to ensure that these do not act as an incentive for taking on inappropriate risks and to ensure that they are transparent and focus on long-term and sustainable objectives. In addition, the companies of Hypo Real Estate Group will provide the contract parties with information rights and rights of inspection and audit.

In addition, the Management Board has set up a new Group-wide Treasury organisation. This has replaced the previous local structure, under which the refinancing activities of the Hypo Real Estate Group were conducted by the corresponding business units.

Further major events

DEPFA Deutsche Pfandbriefbank AG has relocated its registered offices from Frankfurt am Main to Eschborn. The relocation of the registered offices of DEPFA Deutsche Pfandbriefbank AG to Eschborn became legally effective with the entry in the commercial register on 19 March 2008.

Following a public acquisition offer, a group of investors coordinated by J.C. Flowers acquired 24.9 % of the total shares at that time of Hypo Real Estate Holding AG. The entry of the financial investors was intended to stabilise the shareholder base of Hypo Real Estate Holding AG and support the long-term strategic and operational development.

Hypo Real Estate Group completed the announced merger of its two real estate banks on 27 November 2008. The merger was registered on 28 August 2008. The merger of the former Hypo Real Estate Bank International AG with Hypo Real Estate Bank AG became effective with retroactive effect from 1 January 2008 with the entry in the commercial register by the local court (Amtsgericht) Munich. The registered offices of the Company are in Munich. The merged Company trades under the name Hypo Real Estate Bank AG.

The Annual General Meeting of Hypo Real Estate Holding AG adopted a profit and loss transfer agreement between DEPFA Deutsche Pfandbriefbank AG and Hypo Real Estate Holding AG with effect from 1 January 2008.

Hypo Real Estate Group sold the Group company Collineo Asset Management GmbH, Dortmund, to private banking group Sal. Oppenheim jr. & Cie. with the purchase agreement dated 29 August 2008, with retroactive effect from 1 January 2008. The transaction was completed on 8 January 2009.

On 3 December 2008, Deutsche Börse adopted a resolution, with effect from 22 December 2008, for the shares of Hypo Real Estate Holding AG to be delisted from the DAX index and listed in the MDAX, the index comprising 50 mid-caps.

Official and court proceedings

The Hypo Real Estate Group is exposed to litigation and other proceedings in which it is currently involved or which may result in future. In particular, risks may arise in future from the following proceedings:

As a result of the ad hoc press release published on 15 January 2008, in which the Hypo Real Estate Group reported several items, including an impairment of € 390 million in relation to its US CDO portfolio, and the negative press reporting in this respect, shareholders have threatened lawsuits on the grounds of allegedly incorrect capital market information. In the reporting period 2008, only one lawsuit was commenced and two default summonses were issued in this respect. The lawsuit has been abandoned.

In connection with the ad hoc press release published on 15 January 2008, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) has initiated information proceedings. The Company has provided the information which has been requested.

Since January 2009, a considerable number of additional lawsuits has been initiated against the Company. As of 16 March 2009, 73 lawsuits and court orders had been initiated against the Company in connection with the ad hoc press release of 15 January 2008. The total claims amount to approx. € 115 million. In some lawsuits, an application was submitted for assessment of alleged violations of duty of Hypo Real Estate Holding AG or former executive body members in a class action in accordance with the Class Action Law in disputes involving capital market law. As a result of the threats of action which have been received and published, and also as a result of the press reporting with regard to ongoing investigations of the Public Prosecutor regarding former executive body members of Hypo Real Estate Holding AG, further lawsuits against the Company would appear to be possible. None of the lawsuits which have been initiated had so far been successful. No provisions have been created for pending or threatened legal action.

In addition, the Company has been threatened with legal action in the period before 29 September 2008 and 4 October 2008 on the grounds of allegedly incorrect capital market information with regard to the liquidity situation of the Group.

On 16 December 2008, the business premises of the Company and the private accommodation of former executive body members were searched and documents were seized as a result of an order of the Amtsgericht (Local Court) Munich. The reason for this measure was investigations of the Public Prosecutor against former executive board members. It is not expected that these investigations of the Public Prosecutor will result in direct sanctions against the Company. However, it is possible that fines may be imposed on the Company if the investigations of the Public Prosecutor or investigations of the BaFin which are running in parallel identify any violations of information obligations under capital market law.

In June 2008, on the basis of an order of the Public Prosecutor in Milan, the business premises of the Rome branch of DEPFA BANK plc were searched, and items were seized. The investigations are targeted at members of DEPFA BANK plc as well as employees of three other banks due to the allegation that the banks had enriched themselves unlawfully in connection with derivative transactions which had been concluded with the City of Milan. In January 2009, the City of Milan instituted a civil lawsuit for damages against DEPFA BANK plc (as well as the other banks which were involved) as a result of these derivative transactions. The submission of the lawsuit is that the court in Milan to which the application was made should determine the loss and determine the damages, and at least should adjudge that the banks should make a payment of € 238,810,000 under joint and several liability. In line with the internal compensation claims between the four banks, a figure of € 59,702,500 would be attributable to DEPFA BANK plc in this respect.

DEPFA BANK plc is also a party in litigation with two Norwegian municipalities in connection with swap transactions concluded for these municipalities. DEPFA BANK plc has in this connection submitted a counterclaim for payment of € 44 million.

Two customers submitted a lawsuit to a Rome court in May 2008 against the Milan branch of Hypo Real Estate Bank AG for payment of an eight-figure sum in connection with the failure to extend a loan.

In connection with the repurchase of Quadra Realty Trust Inc., a class action lawsuit was submitted against Hypo Real Estate Capital Corporation, among others, in the period under review. A claim was not quantified.

On 29 April 2008, the Landgericht (Regional Court) Munich I adjudged that Bayerische Hypo- und Vereinsbank has to pay € 105 million (main claim plus cumulative interest) to Hypo Real Estate Bank AG, a member of the Hypo Real Estate Group. Bayerische Hypo- und Vereinsbank AG has appealed against the verdict to the Oberlandesgericht (Higher Regional Court).

Four lawsuits are currently pending in connection with the dismissal of members of the Management Board. Frank Lamby has sued for his salary for January 2009. Georg Funke has sued for his salary for January and February 2009. Georg Funke and Dr. Markus Fell have each instituted a lawsuit in order to establish that their immediate dismissal was null and void. Georg Funke has also initiated a lawsuit in order to establish that the revocation of his retirement pension commitment is null and void. The hearing will not take place before the summer.

Ratings

The economic events of last year have resulted in various rating downgrades by all rating agencies. The previously higher ratings of DEPFA BANK plc and its subsidiaries have been brought into line with those of Hypo Real Estate Group. As a result of the merger of the former Hypo Real Estate Bank International AG with Hypo Real Estate Bank AG in Munich, the ratings of the former Hypo Real Estate Bank International AG were discontinued.

The following major rating actions occurred during 2008 and up to 28 March 2009:

In January 2008, the rating agency Standard & Poor's downgraded the outlook of the ratings from Stable to Negative.

In March 2008, the rating agency Fitch Ratings ended the review for an upgrade at some institutions of the Group. The ratings were confirmed and were given a stable outlook.

In July 2008, Standard & Poor's downgraded the long-term ratings from A+ and A to A and A–, and also downgraded the short-term ratings of some banks from A–1 to A–2, whereas the short-term ratings of the other banks were confirmed as A–1, but simultaneously awarded a stable outlook.

As a result of the merger of the former Hypo Real Estate Bank International AG with Hypo Real Estate Bank AG which was planned and carried out in 2008, Moody's set the various long-term and financial-strength ratings of the banks in the same month to "Review"; it set the ratings of Hypo Real Estate Bank AG to "Review for possible upgrade" and the ratings of the former Hypo Real Estate Bank International AG to "Review for downgrade". The P–1 short-term ratings were confirmed.

In response to the first rescue package, Standard & Poor's downgraded the long-term and short-term ratings of all banks to BBB+/A–2 on 29 September 2008, and awarded a negative outlook. The Pfandbrief ratings were set on the following day to Credit Watch with negative implications. On 30 September 2008, Moody's downgraded the long-term ratings of DEPFA BANK plc, DEPFA ACS Bank as well as DEPFA Deutsche Pfandbriefbank AG from Aa3 to A2. The financial-strength ratings were downgraded from C+ to D+. In addition, apart from the bank ratings, Moody's placed all Pfandbrief ratings on a review for downgrade. Fitch Ratings reduced the long-term ratings of the banks in the Hypo Real Estate Group, which was now the uniform rating for all rated institutions in the Group. The short-term ratings for part of the Group were confirmed as F1 or downgraded from F1+ to F1. As a result of the A– rating support floor, the outlook for the long-term ratings of all institutions was stable. At the same time, the ratings of the public Pfandbriefe of DEPFA Deutsche Pfandbriefbank AG as well as the asset-covered securities (ACS) of DEPFA ACS Bank were all confirmed as AAA. The mortgage Pfandbriefe and the public Pfandbriefe of Hypo Real Estate Bank AG were set to Rating Watch Negative.

In October 2008, Standard & Poor's initially set the ratings of all banks belonging to Hypo Real Estate Group to Credit Watch Negative, and reduced the ratings for long-term liabilities in a second stage from BBB+ to BBB, but the A-2 short-term rating was confirmed. The outlook for the ratings is ambivalent, i.e. the agency is anticipating a change in the medium term, either positive or negative.

Ratings of Group companies

as of 31 December 2008	Standard & Poor's	Moody's	Fitch Ratings
Long-term rating	BBB	A2	A–
Outlook	Ambivalent	Review for downgrade	Stable
Short-term rating	A–2	P–1	F1
Public Pfandbriefe[1]	AAA	Aaa	AAA
Mortgage Pfandbriefe[1]	AAA	Aa3	AA+
Asset-covered securities[1]	AAA	Aa1	AAA
Lettres de Gage[1]	AAA	—	—

[1] The Pfandbrief ratings at all rating agencies were under review for a downgrade as of the balance sheet date. The only exceptions in this respect were the ratings awarded by Fitch for the public Pfandbriefe of DEPFA Deutsche Pfandbriefbank as well as the asset-covered securities of DEPFA ACS Bank.

Ahead of the announced merger of the institutions, Moody's adjusted the ratings of the former Hypo Real Estate Bank International AG to those of Hypo Real Estate Bank AG in October (A2 / P–1 / C–), and downgraded the mortgage Pfandbrief of the former Hypo Real Estate Bank International AG from Aa2 to Aa3. In addition, Moody's downgraded the rating of the asset-covered securities (ACS) of DEPFA ACS Bank from Aaa to Aa1. All ratings of Hypo Real Estate Group at Moody's were still on a Rating Watch Negative.

Following the merger with the cover funds of the former Hypo Real Estate Bank International AG, Fitch Ratings retained the ratings of the Pfandbrief of Hypo Real Estate Bank AG (AAA / AA+) in November 2008, but left them under review for downgrade.

In mid-December 2008, Moody's reduced the financial-strength rating of the banks in the Hypo Real Estate Group to E+, and set the outlook for this rating to "Negative". At the end of December 2008, Standard & Poor's confirmed the ratings of the public Pfandbriefe and mortgage Pfandbriefe of Hypo Real Estate Bank AG as AAA in each case. The ratings of the Pfandbriefe remained on the watch list with negative implications.

In January 2009, ahead of the announced merger with the public cover funds of Hypo Real Estate Bank AG, Fitch Ratings set the rating of the public Pfandbriefe of DEPFA Deutsche Pfandbriefbank to review for possible downgrade.

At the beginning of 2009, Moody's terminated the review of the ratings and downgraded the long-term rating of the banks by only one notch from A2 to A3 as a result of the anticipated state support. The other ratings were confirmed. The outlook for all ratings is negative. In a further rating action, Moody's confirmed the ratings of the Pfandbriefe of Hypo Real Estate Bank AG and DEPFA Deutsche Pfandbriefbank, and thus terminated the review for downgrade. At the same time, the rating of the asset-covered securities of DEPFA ACS Bank was downgraded from Aa1 to Aa2; this rating will for the time being still remain under review for a downgrade. Fitch Ratings confirmed the ratings which had been awarded; the outlook is still stable.

Apart from the three mandated agencies, the creditworthiness of Hypo Real Estate Group is also assessed by the Canadian rating agency DBRS on the basis of information in the public domain. Because the significance of the Canadian market for the Hypo Real Estate Group has declined, the Group no longer maintains any interactive relations with DBRS.

Outlook As a result of the indications of a majority takeover by the state, the pressure on bank ratings which prevailed in the fourth quarter of 2008 has declined. The reviews of the bank ratings of Hypo Real Estate Group initiated in October 2008 have been completed. The next rating action in this particular field will probably be of a positive nature.

Changes of method are some of the reasons why covered-bond ratings are likely to be downgraded for the entire market. Because the Group attaches particular strategic importance to its Pfandbrief ratings, it will do its utmost to keep these ratings high compared with the competition.

Personnel

There were the following changes in the personnel of the Management Board in the period under review: the following persons are no longer members of the Management Board: Bo Heide-Ottosen (as of 29 September 2008), Georg Funke (as of 7 October 2008), Dr. Markus Fell and Frank Lamby (both as of 19 December 2008), Thomas Glynn (as of 30 December 2008), Bettina von Oesterreich, Dr. Robert Grassinger and Cyril Dunne (all as of 31 January 2009). Cyril Dunne and Thomas Glynn are still serving on the Board of Directors of DEPFA BANK plc. Dr. Robert Grassinger will step down from the Management Board of Hypo Real Estate Bank AG as of 31 March 2009.

With effect from 13 October 2008, the Supervisory Board appointed Dr. Axel Wieandt and Dr. Kai Wilhelm Franzmeyer to the Management Board and appointed Dr. Axel Wieandt as the Chairman of the Management Board of Hypo Real Estate Holding AG. The Supervisory Board also appointed Frank Krings to the Management Board of Hypo Real Estate Holding AG with effect from 20 October 2008, and appointed Manuela Better to the Management Board of Hypo Real Estate Holding AG with effect from 1 February 2009.

There were the following changes in the Supervisory Board: Pursuant to resolutions of the Annual General Meeting of 27 May 2008, Francesco Ago, Prof. Dr. Gerhard Casper, Johan van der Ende, Dr. Thomas Kolbeck, Maurice O'Connell and Prof. Dr. Hans Tietmeyer were elected onto the Supervisory Board.

Antoine Jeancourt Galignani and Maurice O'Connell laid down their mandates on the Supervisory Board as of 24 July 2008, and Francesco Ago laid down his mandate on the Supervisory Board as of 11 August 2008.

Dr. Renate Krümmer, Richard S. Mully (as of 25 July 2008) and J. Christopher Flowers (as of 12 August 2008) were appointed by a court decision to the Supervisory Board.

Kurt F. Viermetz laid down his mandate on the Supervisory Board as of 10 October 2008. The following persons have also laid down their mandates on the Supervisory Board: Prof. Dr. Gerhard Casper (as of 13 November 2008), Johan van der Ende, Dr. Frank Heintzeler, Dr. Thomas Kolbeck, Dr. Pieter Korteweg, Thomas Quinn, Prof. Dr. Hans Tietmeyer (all as of 17 November 2008), Prof. Dr. Klaus Pohle (as of 30 November 2008), Richard S. Mully, J. Christopher Flowers (all as of 27 March 2009) as well as Dr. Renate Krümmer (as of 31 March 2009).

With effect from 17 November 2008, Dr. Michael Endres, Bernd Knobloch, Dr. Edgar Meister, Sigmar Mosdorf, Hans-Jörg Vetter, Bernhard Walter and Manfred Zaß were appointed by the court to the Supervisory Board of Hypo Real Estate Holding AG. The Supervisory Board elected Dr. Michael Endres as chairman of the Supervisory Board in its meeting of 6 December 2008, and also appointed Bernhard Walter as Deputy Chairman. Dr. Michael Endres, Bernd Knobloch, Dr. Edgar Meister and Hans-Jörg Vetter were elected onto the Supervisory Board of Hypo Real Estate Bank AG with effect from 6 December 2008.

The Group as an employer

The key aspects of personnel work during 2008 were the continuation of the integration process as part of the acquisition of DEPFA BANK plc, support for and implementation of organisational changes as well as preparation of the personnel measures following the strategic reorientation and restructuring.

The acquisition of DEPFA by the Hypo Real Estate Group and implementation of the divisional management principle enabled synergies to be realised; this was also supported by a conservative recruitment policy, overall, approx. 25 % of employees were released at DEPFA. Throughout the Group, approx. 300 employees were released following the merger of the two companies.

Further restructuring measures were carried out, focusing on simplifying the Group structure. After the headquarters of the former Hypo Real Estate Bank International AG were relocated to Munich, the legal merger of the former Hypo Real Estate Bank International AG with Hypo Real Estate Bank AG took place in 2008. As part of this merger process, the employment agreements of the employees of the former Hypo Real Estate Bank International AG were transferred to Hypo Real Estate Bank AG in unchanged form, and the employees continued their previous activity.

In 2008, the Hypo Real Estate Group sold the Group company Collineo Asset Management GmbH (Collineo) to the private bank group Sal. Oppenheim jr. & Cie. All employees of Collineo were transferred with their employment agreements, resulting in a new perspective for them as a result of the sale under the management of Sal. Oppenheim. The sale of Collineo GmbH also set the scene for closing the location in Dortmund, and thus enabled a further step to be taken in the direction of streamlining and simplifying the Group.

The sale of a further subsidiary, namely DEPFA First Albany Securities LLC ("DEPFA First Albany") to the New York investment bank Jefferies & Company, Inc., has closed in 2009. Again, a new perspective was provided to the employees, who were transferred with the sale to Jefferies & Company, Inc.

In 2008, which was characterised by many changes and difficulties, the adjusted fluctuation rate in the Hypo Real Estate Group was 12 %; the average figure for the Hypo Real Estate companies was 8 %, and the average figure for the DEPFA companies was 17 %.

The process of integrating DEPFA in the Hypo Real Estate Group was supported by measures of senior executive development, and also by means of standardising personnel processes. Accordingly, the performance and potential of all employees worldwide in 2008 were assessed and the results discussed in segment-related discussions with all senior executives. This encouraged a common understanding of performance requirements among senior executives. A systematic Group-wide process was initiated for identifying potential key staff as well as comprehensive succession planning for the main functions in the Group. The system and definition of titles was also harmonised in this respect.

As a result of the special situation of the Group, these processes have not yet been completed. Following the implementation of key restructuring measures, these issues shall be revived and a further implementation for the changed organisation will be checked.

In view of the very difficult year in 2008, which reflected the general crisis on the financial markets and the specific extremely difficult situation for the Hypo Real Estate Group, no discretionary variable compensation was paid for financial year 2008 in the Hypo Real Estate Group. Contractual obligations were met. The salary adjustments for 2009 which would normally be implemented within the framework of annual salary discussions have also not been carried out.

Costs of training and qualifications in the Hypo Real Estate Group totalled € 1.5 million in 2008.

With the strategic reorientation and restructuring of the Hypo Real Estate Group which was adopted in December 2008, the cost base will be reduced and the Group structure will be simplified in 2009 and in subsequent years. The number of employees is to be reduced from around 1,800 at the end of 2008 to approximately 1,000 in the course of the next three years, and to approx. 800 by the year 2013. Some of this streamlining process will take place by way of the outsourcing of parts of existing operations and sales. The Hypo Real Estate Group aims to achieve mutually acceptable and socially acceptable solutions with the affected employees, and will attempt to avoid redundancies due to the downsizing of operations if possible.

Compensation Report

The compensation report follows the recommendations of the German Corporate Governance Code and comprises the disclosures required by German Commercial Law or the International Financial Reporting Standards (IFRS) as well as the Gesetz über die Offenlegung der Vorstandsvergütungen (VorstOG; Act concerning the Disclosure of Management Board Compensation). In the following, we provide a detailed overview of the individual components of the compensation of the Management Board and Supervisory Board. Individualised details of the compensation for financial year 2008 for each individual member of the Management Board and the Supervisory Board are also provided. Some members of the Management Board have employment agreements with several Group companies. The figures which are disclosed relate to the overall compensation received by the members of the Management Board in the Group in financial year 2008. No separate compensation is paid for Supervisory Board or Administrative Board mandates of individual members of the Management Board within the Group. The compensation report is an integral component of the certified Group Management Report. The information set out in the following is therefore not additionally disclosed in the notes or the consolidated financial statements.

Management Board

Principle The compensation which is fixed for the members of the Management Board of Hypo Real Estate Holding AG is intended to ensure performance-linked payment, and reflects the international activity and size of the Company. Due consideration is given to the economic and financial position of the Group, and a comparison is also made with Management Board compensation at corresponding companies in Germany and abroad. Taking account of these criteria, the Nomination and Remuneration Committee of the Supervisory Board discusses the structure and extent of Management Board compensation. The amount of compensation is finally determined in the plenary session of the Supervisory Board.

Compensation components The employment agreements signed with the members of the Management Board comprise the following compensation elements:
- Fixed compensation including benefits in kind
- Profit-related variable bonus
- Pension commitment.

Fixed compensation The fixed compensation is reviewed at regular intervals on the basis of an external market comparison, and is adjusted where appropriate. It is not automatically adjusted. In addition, the Company provides standard additional benefits to the members of the Management Board. These benefits include a company car, including an arrangement whereby the Company absorbs all costs which are incurred in this connection. Because some of the members of the Management Board work in several countries, the Company additionally bears the costs of the individual tax returns. These additional benefits are provided inclusive of the tax relating to the non-cash benefit. In addition, the Company pays the costs of a diagnostic medical examination every two years.

Variable bonus As a result of the situation of the Company, the Management Board did not receive a bonus for financial year 2008. This is not applicable for guaranteed payments for the new members of the Management Board who joined the Company in October 2008.

In principle, the variable compensation of the Management Board is fixed by the Supervisory Board as a result of discretion-based decision, whereby due consideration is given to several factors. Before the beginning of a financial year, the Supervisory Board, as part of its overall strategy, defines overall targets for the Management Board as well as individual targets for each member of the Management Board. After the end of the financial year, the Supervisory Board takes a decision with regard to the amount of the bonus on the basis of an extensive discussion. An appraisal is made of the performance of the Company as well as the personal performance of the member of the Management Board. The individual criteria in the personal appraisal are success in meeting strategic and quantitative targets, the personal contribution and

Consolidated remuneration paid to members of Hypo Real Estate Holding AG's Management Board	2008					2007
in € thousand	Basic salary	General expenses[1]	Deferred compensation	Profit-related compensation[2]	**Total**	Total
Dr. Axel Wieandt[3] (Chairman from 13.10.2008)	165	7	55	375	**602**	—
Dr. Kai Wilhelm Franzmeyer (from 13.10.2008)	132	1	—	325	**458**	—
Frank Krings (from 20.10.2008)	120	3	—	325	**448**	—
Georg Funke (Chairman until 7.10.2008)	800	81	—	—	**881**	1,883
Stephan Bub (until 30.6.2007)	—	—	—	—	**—**	4,250
Cyril Dunne[3] (until 31.1.2009)	480	208	32	—	**720**	1,281
Dr. Paul Eisele (until 31.5.2007)	—	—	—	—	**—**	767
Dr. Markus Fell (until 19.12.2008)	450	45	—	—	**495**	955
Thomas Glynn[4] (until 31.12.2008)	400	150	48	—	**598**	1,296
Dr. Robert Grassinger (until 31.1.2009)	400	41	—	—	**441**	878
Bo Heide-Ottosen[5] (until 29.9.2008)	450	187	216	—	**853**	2,200
Frank Lamby (until 19.12.2008)	450	49	—	—	**499**	1,359
Bettina von Oesterreich (until 31.1.2009)	400	35	—	—	**435**	1,003
Total[6]	**4,247**	**807**	**351**	**1,025**	**6,429**	**15,872**

[1] Enclosed in it are: in-kind benefits for the performance of additional services in the usual framework which are subject to taxation and – abroad – also to payments for social insurance
[2] Provisions created, no decision regarding disbursement has been taken so far
[3] "Deferred compensation" includes the rent for the apartment used in Munich including related taxes.
[4] Because Mr Glynn works for the holding and also for DEPFA BANK plc, the Company also pays for the international health insurance of the family. The school allowance is shown under "Deferred compensation".
[5] "Deferred compensation" includes the rent for the apartment used in Munich and also for the apartment in London, including related taxes.
[6] In addition there exist individual contractual commitments to providing retirement benefits in the amount of a percentage of the annual fixed compensation.

commitment as well as the exercising of entrepreneurial responsibility and team conduct in the Management Board. On an overall basis, the Supervisory Board strictly observes the correlation.

Pension commitments With the exception of Cyril Dunne, the members of the Management Board have individual commitments for retirement benefits after their 60th birthday and in the event of occupational disability or invalidity.

The contract of the Chairman of the Management Board who was in office until 7 October 2008 included the following additional regulation: Georg Funke additionally receives a retirement pension if the Company, after the end of the period for which Georg Funke was appointed, fails to extend the contract although he has declared that he is prepared to continue the employment agreement on the existing terms or if the Company prematurely terminates the contract, in the absence of fault or on his 60th birthday, if he has taken advantage of the special right of termination following a change of control. If premature retirement benefit is received, the income which is generated as a result of carrying out other professional activities is offset against his retirement pension until his 60th birthday if this income generated as a result of carrying out other professional activities plus the retirement pension exceed the fixed compensation defined in his employment contract. If, after the end of the employment contract and before his 60th birthday, the beneficiary directly or indirectly acts for a company which competes directly or indirectly with the Company, his entitlement to payment of the retirement benefit shall be suspended for this period. This ruling is not applicable for Dr. Axel Wieandt. However, the pension agreement with Dr. Axel Wieandt envisages that a retirement pension will be paid after his 57th birthday. Until his 60th birthday, any income earned elsewhere will be offset against the retirement pension.

The following is applicable with regard to the amount of the retirement pension of the members of the Management Board: the chairman of the Management Board receives a retirement pension equivalent to 70 % of his fixed compensation. For the members of the Management Board who were first appointed to the Management Board up to and including 1 January 2004, the retirement pension is defined as 50 % of the fixed compensation. This figure is incremented by 1 % for each completed year of service as a member of the Management Board, subject, however, to a cap of 60 %. For those members of the Management Board who were first appointed to the Management Board of Hypo Real Estate Holding AG after 1 January 2004, the basic retirement pension is defined as 30 % of the fixed compensation. The retirement pension is incremented by 1 % for each completed year of service as a member of the Management Board, subject, however, to a cap of 50 %. In general, a shut-out period is agreed for new commitments. The statutory vesting regulations are also applicable. However, the pension commitments for the members of the Management Board who joined in October 2008 are contractually vested with immediate effect. As is the case with the other pension obligations of the Company, reinsurance has been taken out to cover the pension commitment.

In general, claims to benefits arising from other activities are offset in full against the retirement pension. Section 16 of the Company Pensions Act (Betriebsrentengesetz) is applicable with regard to the adjustment of pensions after retirement; i.e., the pension is adjusted every three years on the basis of the consumer price index.

If a member of the Management Board dies, his surviving spouse receives 60 % of the retirement pension entitlement of her deceased spouse. In addition, there is also an orphan's pension (for orphans who have lost one or both parents) applicable until the 21st birthday of the children. If a child is still undergoing vocational training after his/her 21st birthday, the orphan's pension is payable until the end of such vocational training; however, it is not payable beyond the 25th birthday of the orphan. As long as the surviving spouse receives a pension for surviving dependants, the total pensions payable to the orphans who have lost one parent must not exceed 30 % of the retirement benefits of the deceased parent. Orphans who have lost both parents together receive up to 60 % of the retirement pension of the deceased parent.

Surviving spouses and children from a marriage into which the member of the Management Board enters after retiring do not have any entitlement to receiving a widow's and orphan's pension.

In addition, so-called deferred compensation agreements still exist with two former members of the Management Board from the period before the spin-off from Bayerische Hypo- und Vereinsbank AG. This comprises an arrangement whereby parts of compensation have been converted into pension benefits.

Pension commitments of members of Hypo Real Estate Holding AG's Management Board

	2008			
in € thousand	Present value of pension claims vested	Interest expense	Outstanding past service cost	DBO as of 31.12.2008
Dr. Axel Wieandt (Chairman from 13.10.2008)	6,218 [1]	—	—	6,218
Dr. Kai Wilhelm Franzmeyer (from 13.10.2008)	2,031	—	—	2,031
Frank Krings (from 20.10.2008)	1,637	—	—	1,637
Georg Funke [2] (Chairman until 7.10.2008)	—	—	—	—
Cyril Dunne [3] (until 31.1.2009)	—	—	—	—
Dr. Markus Fell [2] (until 19.12.2008)	—	—	—	—
Thomas Glynn [4] (until 31.12.2008)	—	—	—	—
Dr. Robert Grassinger (until 31.1.2009)	42	70	—	1,414
Bo Heide-Ottosen [2] (until 29.9.2008)	—	—	—	—
Frank Lamby [2] (until 19.12.2008)	—	—	—	—
Bettina von Oesterreich [2] (until 31.1.2009)	—	—	—	—
Total	**9,928**	**70**	**—**	**11,299**

[1] Change to the pension commitment after 1 April 2009. The effects are explained on page 48.
[2] The pension commitments were revoked in view of the fact that the employment agreements have been terminated without notice.
[3] There is no pension agreement.
[4] There are no pension entitlements because the requirements applicable for the vesting period were not met.

Other rules If the employment agreement is terminated prematurely by the Company without a compelling reason, some of the employment agreements of the members of the Management Board contain a clause according to which they receive a severance payment equivalent to one annual salary in addition to the payment for the remaining term of the agreement. However, in the case of the agreements which have been signed since 2007, this rule is applicable only if the agreements have been signed for a period of three years. In the case of the new Management Board agreements signed since the year 2007, the contractually specified severance payment is limited to the maximum compensation payable for two years (severance payment cap).

The agreement of Georg Funke contained a change of control clause. The purpose of this clause was to provide protection to the Chairman of the Management Board particularly within the context of the uncertain owner situation in the months before and at the time of the spin-off from Bayerische Hypo- und Vereinsbank AG. The change of control clause granted him a special right to terminate the employment agreement if the majority of the share capital was acquired by a new shareholder.

In the event of a change of control, Dr. Axel Wieandt and Frank Krings are entitled to terminate the employment agreement. If this special right of termination is exercised, they are entitled to a severance payment in the maximum amount applicable in accordance with the German Corporate Governance Code at the point at which the agreement was signed.

The following are considered to be instances of change of control:

- The acquisition of a majority stake in the share capital by third parties
- The transfer of shares or voting rights of the majority of bank subsidiaries to third parties
- The withdrawal of voting rights or instructions for exercising the voting rights for the German bank subsidiaries by the BaFin
- The pledging or assignation of ownership in the shares as security in relation to the majority of the bank subsidiaries
- Disposal of the collateral including the collateral provided by the bank subsidiaries in connection with the rescue package of the financial market stabilisation fund or the bank syndicate
- Measures of the BaFin in accordance with sections 46, 46a KWG against one or more bank subsidiaries or in accordance with section 45 KWG against the financial holding company which are imposed before 1 January 2010
- An event covered by the deposit protection fund or insolvency of one or more bank subsidiaries or the imposition of a moratorium in accordance with section 47 KWG over one or more bank subsidiaries.

However, measures for implementing the current rescue package do not constitute a change of control which would lead to a special right of termination; however, a subsequent measure, e.g. disposal of collateral if credit facilities under the rescue package are not serviced as agreed, would constitute a change of control.

The Supervisory Board signed a new employment agreement with Dr. Wieandt with effect from 1 April 2009. The employment agreement differs in the following points from the previous employment agreement:

- If the financial market stabilisation fund demands a reduction of the compensation as a result of the granting of state stabilisation measures, the reduction shall be agreed in the amount which is demanded, up to a maximum of € 500,000 (gross) per annum. No variable compensation will be paid during this period.
- With regard to the retirement benefit commitment, the base amount equivalent to 70 % of the last fixed salary is lowered to 30 %. For each completed year of service as a member of the Management Board, the retirement pension shall be incremented by 1.66 %, up to a cap of 60 %. Dr. Wieandt shall become entitled to a retirement pension upon his 60th birthday. The benefit entitlement shall become vested at the end of 12 October 2009, unless the employment agreement is terminated by Dr. Axel Wieandt before 13 October 2009, or unless Dr. Axel Wieandt lays down his position on the Management Board before 13 October 2009. The pension obligation as of 31 December 2009 will thus probably be reduced by approx. € 3.8 million.
- A change of control is no longer included in the agreement.
- In addition, the term of the agreement and the period of appointment have been reduced to three years.

The following arrangements were agreed with the members of the Management Board who stepped down from the Management Board at the end of September 2008:

Cyril Dunne Cyril Dunne stepped down from his position on the Management Board of Hypo Real Estate Holding AG with effect from 31 January 2009. The Management Board agreement with the Company was also terminated as of 31 January 2009. Because Cyril Dunne continued to act as the Chief Executive Officer of DEPFA BANK plc after 1 February 2009, no severance payment was agreed. There is no bonus entitlement for the year 2008.

Dr. Markus Fell On 19 December 2008, the Supervisory Board adopted a resolution to revoke the appointment of Dr. Markus Fell as a member of the Management Board with immediate effect for a compelling reason. On 20 December 2008, the Remuneration and Nomination Committee decided to terminate the employment agreement of Dr. Markus Fell immediately for a compelling reason and to revoke the benefit commitment which had been provided to Dr. Markus Fell for a compelling reason. These resolutions were notified to Dr. Markus Fell with the letter dated 23 December 2008. Accordingly, the Company has not paid any salary to Dr. Markus Fell since January 2009. The Company has submitted a demand for repayment of the salary paid for the period 24 to 31 December 2008.

Georg Funke Georg Funke laid down his office on the Management Board on 7 October 2008, and was suspended from his duties from that date onward, whereby his monthly fixed compensation continued to be paid. On 20 December 2008, the Remuneration and Nomination Committee decided to terminate the employment agreement of Georg Funke immediately for a compelling reason and to revoke the benefit commitment which had been provided to Georg Funke for a compelling reason. This resolution was notified to Georg Funke with the letter dated 23 December 2008. Accordingly, the Company has not paid any salary to Georg Funke since January 2009. The Company has submitted a demand for repayment of the salary paid for the period 24 to 31 December 2008.

Thomas Glynn Thomas Glynn laid down his office on the Management Board of Hypo Real Estate Holding AG as of 30 December 2008. His employment agreement was terminated as of 31 December 2008 as a result of a termination agreement. As compensation for his claims arising from the employment agreement which covered the fixed period until 31 January 2010, Thomas Glynn received a severance payment of € 400,000 (gross). This is equivalent to one annual fixed salary. He has no bonus entitlement for 2008. As part of the termination agreement, Thomas Glynn waived his entitlement to the firm commitment of a bridging payment set out in his employment agreement to cover the event of premature termination of the agreement (€ 1,450,000 gross). On 1 January 2009, Thomas Glynn would have acquired a vested claim to benefits from the company pension scheme as a result of the benefit commitment issued by the Company. However, because his appointment and employment agreement were terminated before this date, this claim did not arise.

Dr. Robert Grassinger Dr. Robert Grassinger laid down his office on the Management Board of Hypo Real Estate Holding AG as of 31 January 2009. His Management Board mandate agreement with Hypo Real Estate Holding AG was terminated as of 31 January 2009 as a result of a termination agreement. The Management Board agreement of Dr. Robert Grassinger with Hypo Real Estate Bank AG was terminated as of 31 March 2009 by way of a termination agreement. The agreements with Dr. Robert Grassinger contain terms which differ from the terms applicable for the other members of the Management Board who stepped down from the Management Board. The material conditions of the termination agreement had been agreed in the summer of 2008 with the former Supervisory Board. At that time, Dr. Robert Grassinger received a written commitment that, upon termination, his fixed compensation as well as additional benefits would be paid for the remaining term of the agreement (€ 1,326,800). Within the framework of the termination agreement, it was agreed that other compensation derived from employment, self-employment or any other activity received by Dr. Robert Grassinger until 30 June 2010 will be offset against the severance payment in accordance with section 615 Sent. 2 BGB. The severance payment will be paid in quarterly instalments three months in arrears, and will be paid for the first time on 30 April 2009. There is no bonus entitlement for 2008, and there is no pro rata bonus entitlement for 2009. In addition, as a result of his previous service, Dr. Robert Grassinger has acquired a legally vested entitlement to benefits from the company pension scheme after his 60th birthday.

Bo Heide-Ottosen Bo Heide-Ottosen laid down his office on the Management Board of the Company of 29 September 2008, and was suspended from his duties from that day onwards, whereby his monthly fixed compensation continued to be paid. On 20 December 2008, the Remuneration and Nomination Committee decided to terminate the employment agreement of Bo Heide-Ottosen immediately for a compelling reason and to revoke the benefit commitment which had been provided to Bo Heide-Ottosen for a compelling reason. This resolution was notified to Bo Heide-Ottosen with the letter dated 23 December 2008. Accordingly, the Company has not paid any salary to Bo Heide-Ottosen since January 2009. The Company has submitted a demand for repayment of the salary paid for the period 24 to 31 December 2008.

Frank Lamby On 19 December 2008, the Supervisory Board decided to revoke the appointment of Frank Lamby as a member of the Management Board with immediate effect for a compelling reason. On 20 December 2008, the Remuneration and Nomination Committee decided to terminate the employment agreement of Frank Lamby immediately for a compelling reason and to revoke the benefit commitment which had been provided to Frank Lamby for a compelling reason. These resolutions were notified to Frank Lamby with the letter dated 23 December 2008. Accordingly, the Company has not paid any salary to Frank Lamby since January 2009. The Company has submitted a demand for repayment of the salary paid for the period 24 to 31 December 2008.

Bettina von Oesterreich The Supervisory Board and Bettina von Oesterreich agreed at the end of December 2008 by way of a termination agreement that the employment agreement of Bettina von Oesterreich will be prematurely terminated as of 31 March 2009. As agreed, she laid down her office on the Management Board as of 31 January 2009 when her successor had been arranged. Her employment agreement ends prematurely as of 31 March 2009 by way of a termination agreement. As compensation for her claims arising from the employment agreement which was fixed until 31 January 2010, Bettina von Oesterreich will receive a severance payment of € 400,000 (gross). This is equivalent to one annual fixed salary. There is no bonus entitlement for 2008, nor is there any pro rata bonus entitlement for 2009. As part of the termination agreement, Bettina von Oesterreich has waived her entitlement to a bridging benefit of € 950,00 (gross) which was fixed in her employment agreement. There are no vested entitlements to benefits from the company pension scheme because the vesting date had not yet been attained.

Supervisory Board

The Supervisory Board, which was in place until 17 November 2008, receives compensation which is defined in section 11 of the articles of association. Accordingly, the members of the Supervisory Board in financial year 2008 received annual basic compensation of € 70,000; the chairman of the Supervisory Board received two and a half times the basic compensation, and his deputy received one and a half times the basic compensation. Compensation of € 10,000 was payable for the activity in the Remuneration and Nomination Committee, and € 20,000 was payable for the activity in the Audit Committee. The chairman of a committee received twice this amount in each case. The entitlement to compensation was applicable on a pro rata basis for the period of activity.

The Company reimburses travel expenses, but does not pay allowances for attending meetings. The Company has provided an office and a secretary's office to the chairman of the Supervisory Board. In addition, the former Chairman of the Supervisory Board, Kurt F. Viermetz, was able to use a company car with a chauffeur. Apart from the compensation which is detailed above and which is fixed in the articles of association, the Company has not provided the members of the Supervisory Board with any other compensation or benefits for personally rendered services. However, the new Supervisory Board has decided that the members of the Supervisory Board will receive their compensation one day after their actions have been approved by the Annual General Meeting, instead of after the end of each financial year. Because this rule is already applicable for financial year 2008, the members of the Supervisory Board have not yet received their compensation for 2008; however, a corresponding provision has been created. The compensation for the activity in the newly created committees (Nomination Committee or Risk and Liquidity Strategy Committee) is taken into consideration, subject to a corresponding change to the articles of incorporation being approved by the Annual General Meeting. The following table sets out individual details of the compensation for the members of the Supervisory Board.

The new Supervisory Board has decided to make a contribution to the restructuring. For this reason it will waive 100 % of its remuneration for 2008 and 50 % of its remuneration for 2009.

Consolidated remuneration paid to members of the Supervisory Board

in € thousand	2008													
	Supervisory Board			Nomination Committee		Audit Committee		Risk Management Committee		Nomination Committee				
	Chairman	Deputy Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member	Subtotal	Value added tax 19 %	**Total**
Remuneration p. a.	**175**	**105**	**70**	**20**	**10**	**40**	**20**	**30**	**20**	**10**	**5**	**—**	**—**	**—**
Dr. Michael Endres [1] (from 17.11.2008, Chairman from 6.12.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Bernhard Walter [1] (from 17.11.2008, Deputy Chairman from 6.12.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Bernd Knobloch [1] (from 17.11.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Dr. Edgar Meister [1] (from 17.11.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Sigmar Mosdorf [1] (from 17.11.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Hans-Jörg Vetter [1] (from 17.11.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Manfred Zaß [1] (from 17.11.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Prof. Dr. Klaus Pohle (until 30.11.2008, Deputy Chairman until 10.10.2008, Chairman 10.10. to 30.11.2008)	29	79	—	3	7	37	—	—	—	2	—	157	30	**187**
Kurt F. Viermetz (Chairman until 10.10.2008)	146	—	—	17	—	—	—	—	—	4	—	167	32	**199**
Dr. Renate Krümmer (Deputy Chairman 25.7.2008 to 31.3.2009)	—	53	—	—	—	—	10	—	—	—	—	63	12	**75**
Francesco Ago (18.6.[2] to 11.8.2008)	—	—	23	—	—	—	—	—	—	—	—	23	4	**27**
Prof Dr. Gerhard Casper (18.6.[2] to 17.11.2008)	—	—	41	—	—	—	—	—	—	—	2	43	8	**51**
Johann van der Ende (18.6.[2] to 17.11.2008)	—	—	41	—	—	—	—	—	12	—	—	53	10	**63**
J. Christopher Flowers (12.8.2008 to 27.3.2009)	—	—	29	—	4	—	—	—	—	—	2	35	7	**42**
Dr. Frank Heintzeler (until 17.11.2008)	—	—	64	—	—	—	18	—	12	—	—	94	18	**112**
Antoine Jeancourt-Galignani (until 24.7.2008)	—	—	41	—	—	—	12	—	—	—	—	53	10	**63**

[1] The new Supervisory Board has decided to make a contribution to the restructuring. For this reason it will waive 100 % of its remuneration for 2008 and 50 % of its renumeration for 2009.
[2] Entry in the by-laws, appointed at the annual general meeting on 27.5.2008

Consolidated remuneration paid to members of the Supervisory Board	**2008**													
	Supervisory Board			**Nomination Committee**		**Audit Committee**		**Risk Management Committee**		**Nomination Committee**				
in € thousand	Chairman	Deputy Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member	Subtotal	Value added tax 19 %	**Total**
Dr. Thomas Kolbeck (18.6.[1] to 17.11.2008)	—	—	41	—	—	—	—	18	—	—	—	59	11	**70**
Dr. Pieter Korteweg (until 17.11.2008)	—	—	64	—	9	—	—	—	—	—	—	73	14	**87**
Richard S. Mully (25.7.2008 to 27.3.2009)	—	—	35	—	—	—	—	—	10	—	—	45	9	**53**
Maurice O'Connell[2] (18.6.[1] to 24.7.2008)	—	—	—	—	—	—	—	—	—	—	—	—	—	**—**
Thomas Quinn (until 17.11.2008)	—	—	64	—	—	—	18	—	—	—	—	82	17	**98**
Prof. Dr. Hans Tietmeyer (18.6.[1] to 17.11.2008)	—	—	41	—	—	—	—	—	—	—	2	43	9	**51**
Total	**175**	**131**	**484**	**20**	**20**	**37**	**58**	**18**	**34**	**6**	**6**	**990**	**188**	**1,178**

[1] Entry in the by-laws, appointed at the annual general meeting on 27.5.2008
[2] Mr. O'Connell has waived his entitlement to the Supervisory Board compensation.

Sustainability

Even in the difficult environment of last year, the Hypo Real Estate Group continued to follow its objective of encouraging and maintaining a sustainable environment in which life is worth living. Although the Group had to introduce restrictions to the monetary side of its involvement as a result of the critical situation in which it found itself last year, it has not lost sight of its responsibility to society and the environment even in difficult times.

Corporate culture A key component in this respect is the policy of encouraging an open corporate culture which is willing to take on change and which, apart from its economic focus, also takes account of non-financial factors. Accordingly, the general credit principles of the Hypo Real Estate Group also defines ethical principals for extending loans which are also consistent with the code of conduct applicable for all employees.

One of the aspects of this corporate culture is that due consideration is also given to the encouragement and maintenance of an environment in which life is worth living. Accordingly, manufacturers and suppliers must meet the defined environmental protection requirements and must be correspondingly certified. Internally, the Company takes account of this requirement in various ways, e.g. by means of using paper-saving procedures or using modern energy-saving equipment.

Social commitment The Hypo Real Estate Group carried out its social responsibility in 2008 mainly by way of its two foundations, namely the Hypo Real Estate Foundation, Munich, as well as the Foundation for Arts and Science of Hypo Real Estate Bank International AG, Stuttgart. Since they were originally founded in 1968 and 1987 respectively by predecessors of Hypo Real Estate Bank AG, the foundations have had independent capital which is ring-fenced from the Group and which can only be used for fulfilling the foundation objectives as a result of the corresponding regional foundation laws. In this way, despite the financial situation of the Group, the Hypo Real Estate Group was still able to meet its social responsibility with regard to encouraging the arts, culture and science.

The Hypo Real Estate Foundation supports concerts and exhibitions. In addition, with its architecture prize which enjoys nation wide recognition, the foundation itself takes the initiative with regard to improving architectural culture in commercial properties in Germany.

The architecture prize recognises aesthetic commercial buildings which are exemplary in ecological terms. Since 1992, this prestigious prize has been awarded every two years. The competition is one of the few awards in the sector which focus exclusively on commercial buildings. In 2006, it was extended to include a young talent prize which offers young architects a platform and encourages dialogue between young architects, experienced architects, property owners and investors. Both competitions are under the patronage of the Federal Minister for Transport, Construction and Town Planning and also the patronage of the Bund Deutscher Architekten (BDA).

The projects are spread throughout the whole of Germany, and represent the entire range of commercial building. They comprise large-scale construction projects as well as smaller and unusual projects, and are singled out for their holistic programme focusing on the environment. The aim of the competition – also outside representative locations – is to focus to a greater extent on the balance between economic adequacy and architectural aesthetics. Hypo Real Estate in this way wishes to combat the “ghost town character” of industrial estates on municipal outskirts. Industrial zones in particular increasingly result in urban sprawl. The purpose of the Hypo Real Estate architecture prize is to set new signals for developers, investors and property owners.

In addition to the architecture prize, the Hypo Real Estate Foundation also awards monetary prizes in the fields of music and art. For instance, in 2008, the foundation sponsored the exhibition “Three Perspectives and a Short Scenario” of the artist Liam Gillik in the Kunstverein Munich. The exhibition had previously been seen in Witte de With, Rotterdam, and the Kunsthalle Zurich before it came to Munich and then went to the Museum of Contemporary Art in Chicago. Gillik is representing the Federal Republic of Germany at the 53rd Biennale 2009 in Venice.

In addition, the Hypo Real Estate Foundation has also been linked for many years with the International Schubert Competition, and supports the competition in the form of prize money and donations. Young pianists from throughout the world compete before jurors of international repute for nine days in all aspects of interpreting works of Schubert. The competition is also open to the interested public, and has developed into a major forum for the Schubert scene.

Further awards of the foundation have been received by the school project “denkmal aktiv” of the Deutsche Stiftung Denkmalschutz as well as the Dortmunder Kunstverein for the exhibition of the video installation “Eyes Wide Shut” of Martin Brand.

The Foundation for Art and Science of Hypo Real Estate Bank International AG sponsors intellectual and artistic work – with an emphasis on Baden-Württemberg – mainly in the fields of literature, painting, sculpture, music, the theatre, architecture/design, regional and cultural studies. In addition, a foundation prize is also awarded in these areas every one to two years.

Sustainability indices In order to ensure that the efforts of the Hypo Real Estate Group with regard to sustainable economy are made transparent, the Group regularly takes part in surveys held by the following sustainability rating agencies: Dow Jones Indices/STOXX Ltd./SAM, SiRi Global Profile, Vigeo, Carbon Disclosure Project.

Development in Earnings

Hypo Real Estate Group

The development of the Hypo Real Estate Group, which operates its business in the three segments of Commercial Real Estate, Public Sector & Infrastructure Finance and Capital Markets & Asset Management, was characterised by the increasingly serious crisis on the capital and financial markets throughout the whole of financial year 2008. This crisis as well as the problems and changed situation of the Hypo Real Estate Group, had a considerably negative impact on the income statement; this means that the results for 2008 are not comparable with the corresponding previous year figures. On 31 December 2008, pre-tax profit was considerably negative (€ –5,375 million), compared with the corresponding previous year figure of € 587 million. The decline is primarily attributable to impairments of € –2,482 million on goodwill and intangible assets of DEPFA BANK plc and its subsidiaries (DEPFA). In addition, pre-tax profit was also affected by the valuation result recognised in the income statement in relation to synthetic collateralised debt obligations (CDOs) totalling € –395 million, impairments on cash CDOs in net income from financial investments totalling € –762 million, impairments on mortgage-backed securities (MBS) totalling € –528 million, market value adjustments due to counterparty risks in net trading income totalling € –433 million and significantly increased provisions for losses on loans and advances of € –1,656 million as a result of the financial market crisis as well as additions to restructuring provisions of € –225 million incurred in connection with the strategic refocusing and restructuring of the Group. On the other hand, positive impacts were attributable to the devaluation and non-payment of subordinated capital of € 353 million and to the valuation gain of € 180 million in relation to a derivative which was embedded in a mandatory convertible bond which was issued for refinancing the DEPFA acquisition and which has now been converted. After tax of € 86 million (2007: € 130 million), net income for 2008 is reported as € –5,461 million (2007: € 457 million), which corresponds to return on equity of –74.5 % (8.5 %).

In addition, the previous year figure includes the contributions to earnings of DEPFA as well as the costs for refinancing the acquisition since the date of the takeover (2 October 2007), because the company only has to be consolidated after that date. To present the DEPFA acquisition in an economically meaningful and sensible way, the results of the Hypo Real Estate Group have been compared with the pro forma form of the income statement of the previous year.

The pro forma previous year financial information has been prepared on the basis of the principles of the Institut der Wirtschaftsprüfer with regard to the preparation of pro forma disclosures (IDW RH HFA 1.004 "Preparation of pro forma financial information"). The statement, recognition and valuation of the pro forma financial information are consistent with IFRS principles. The statement, recognition and valuation principles which have been used are the same as those described in the audited and published consolidated financial statements for the period ending 31 December 2007 of Hypo Real Estate Holding AG. The pro forma figures do not take account of any synergy or cost savings associated with the DEPFA acquisition. In accordance with the IDW principles relating to pro forma financial information, it has been assumed for the purpose of preparing the pro forma income statements that the acquisition took place as of 1 January 2006. The pro forma financial information is based on the purchase method in accordance with IFRS 3 (Business Combinations). Accordingly, the costs of purchase derived in this way have been provisionally spread over the acquired assets and the assumed liabilities. These figures are based on the market values of the acquired assets and liabilities as of 2 October 2007.

Compared with the pro forma figures of the previous year, the development in results of the Hypo Real Estate Group is set out in the following:

Key Financials		2008	pro forma 2007
Operating performance			
Operating revenues	in € million	– 585	1,463
Net interest income and similar income	in € million	1,633	1,471
Net commission income	in € million	32	234
Net trading income	in € million	– 1,009	– 274
Net income from financial investments	in € million	– 1,409	6
Net income from hedge relationships	in € million	86	11
Balance of other operating income/expenses	in € million	82	15
Provisions for losses on loans and advances	in € million	1,656	– 61
General administrative expenses	in € million	605	656
Impairments on goodwill and DEPFA's intangible assets	in € million	2,482	—
Balance of other income/expenses	in € million	– 47	– 6
Pre-tax profit	in € million	– 5,375	862
Key ratio			
Cost-income ratio (based on operating revenues)	in %	> 100.0	44.8

Operating revenues Operating revenues were negative (€ – 585 million), and were accordingly considerably lower than the corresponding figure for the previous year period (2007: € 1,463 million). The decline is mainly attributable to the decreased net commission income and the clearly negative net trading income and net income from financial investments.

The non-payment and the devaluation of some instruments of subordinated capital led to an income of € 353 million. Mainly because of this effect and due to effects from the infrastructure finance portfolio which increased on average for the year, the drawn liquidity lines of DEPFA, the net interest income of the securities which were reclassified out of trading into loans and receivables (LaR) and high interest income in the money market field, net interest income increased to € 1,633 million compared to € 1,471 million in the previous year. In contrast there were mainly two effects: firstly, net interest income comprised considerably lower one-off income from sales of receivables, early repayment penalties as well as redemptions and repurchasing of financial liabilities than was the case in the previous year. Secondly, net interest income is depressed by the costs of the liquidity support provided by the syndicate from the German finance sector, the Bundesbank as well as the financial market stabilisation fund.

Net commission income amounted to € 32 million compared with € 234 million in the previous year. This decline is attributable to the lower level of new business in commercial real estate financing, lower income from asset management, lower income from new business with customer derivatives and expenses of the liquidity support provided by the syndicate from the German finance sector, the Bundesbank as well as the financial market stabilisation fund.

The turmoil on the financial markets became even more serious in 2008. This development had a further considerable impact on net trading income, which declined to € – 1,009 million compared with € – 274 million in the previous year. A valuation change of € – 395 million was recorded in relation to synthetic CDOs (2007: € – 198 million); of this figure, € –177 million was recognised in the fourth quarter of 2008. The synthetic CDOs comprise embedded derivatives which have to be separated in accordance with IAS 39 and whose changes in values have to be recognised in the income statement. In 2008, expenses of € –150 million were also recognised mainly as a result of derivative positions with Lehman Brothers. The spread changes relating to other trading holdings also had a negative impact. For instance market value adjustments due to counterparty risks had a negative impact of € –433 million on net trading income. In accordance with the amendment of IAS 39 "Reclassification of financial assets" which was published by the IASB and endorsed by the EU in October 2008, the Hypo Real Estate Group reclassified assets with a carrying amount of € 3.5 billion out of trading into the category loans and receivables retrospectively as of 1 July 2008. In addition, the Hypo Real Estate Group reclassified further trading holdings with a carrying amount of € 0.7 billion as of 1 October 2008. Without the reclassifications as of 1 July and 1 October, net trading income in 2008 would have been € 736 million lower.

Net income from financial investments amounted to € –1,409 million as a result of numerous impairments in relation to financial investments; the corresponding previous year figure was slightly positive (€ 6 million). The most significant impairment requirement (€ –762 million) existed in relation to cash CDOs (2007: € –268 million); of this figure, € –353 million was recognised in the fourth quarter of 2008. The figure of € –762 million comprises the partial reversal of € 70 million recognised in the second quarter of 2008 in relation to the model reserve of € 90 million created in 2007 for uncertainty associated with the assumptions and estimates which had been made. MBS were impaired by € –528 million, thereof € –524 million in the fourth quarter 2008. In addition, net income from financial investments also includes the impairment of € –74 million in relation to shares of the Australian investment and consultancy company Babcock & Brown acquired in 2006. The sale of the subsidiary Collineo Asset Management GmbH, Dortmund, resulted in a deconsolidation loss of € –15 million. In addition, in 2008, an impairment of € –25 million was recognised in relation to securities of the American investment bank Lehman Brothers, and an impairment of € –38 million was recognised in relation to securities of Icelandic issuers; a portfolio-based impairment of € –24 million was also recognised in relation to assets which were reclassified into the category LaR in accordance with IAS 39. Moreover, profits from the disposal of securities declined considerably compared with the previous year. Widening spreads had a negative impact on the prices of public finance paper and other securities, and the volume of financial assets sold in financial 2008 was lower than in the previous year. An effect, after transaction costs, of € 22 million from the initial consolidation of Quadra Realty Trust, Inc., New York, had a positive impact on the net income from financial investments. Because the interest of the Hypo Real Estate Group in the sum of the fair values of the recognised assets, liabilities and contingent liabilities exceeded the costs of purchase, the surplus has to be recognised in the income statement immediately in accordance with IFRS 3.56.

Net income from hedge relationships amounted to € 86 million and was thus higher than the corresponding previous year figure of € 11 million. This item reflects two opposite effects. A positive effect of € 162 million (2007: € 31 million) resulted from hedge inefficiencies within the range of 80 % to 125 % which is admissible under IAS 39. The hedge inefficiencies were unusually high as a result of the reduction of the interest rates by central banks which took place in the fourth quarter, and these hedge inefficiencies will probably be reversed in subsequent periods. A negative valuation result of € –76 million (2007: € –20 million) was attributable to assets designated at Fair Value through Profit or Loss (dFVTPL) and related derivatives. The fair values of these positions hedging interest risks have declined as a result of credit spread changes.

The balance of other operating income/expenses amounted to € 82 million, and resulted mainly from effects of the foreign currency translation of € 96 million. In contrast there were impairments and other expenses of property in current assets (salvage acquisitions) of € 16 million. A positive effect resulted from the receipt of a contractual compensation payment by DEPFA Deutsche Pfandbriefbank AG for the year 2001 of € 4 million. The previous year figure of € 15 million mainly comprised an income from a reversal of € 16 million for a provision for interest on taxes at DEPFA Deutsche Pfandbriefbank AG.

Provisions for losses on loans and advances The additions to provisions for losses on loans and advances increased to € 1,656 million as a result of the considerable global economic downturn and the deterioration of the situation in some real estate markets. The addition to provisions for losses on loans and advances contain portfolio-based allowances of € 501 million. Individual allowances were also recognised particularly in relation to commercial real estate financing in Germany, Spain, Great Britain and the USA, an infrastructure financing arrangement as well as public financing arrangements. In addition a cash CDO wrapped as a bonded loan had to be impaired by € –84 million. In the previous year, in which overall provisions for losses on loans and advances of € 61 million were reversed, the adjustment of the loss identification period resulted in income of € 105 million.

General administrative expenses General administrative expenses declined to € 605 million compared with the previous year (€ 656 million) as a result of considerably lower accrued liabilities for bonuses. The general administrative expenses of the current financial year reflect consultancy fees which were incurred primarily in connection with the stabilisation, restructuring and strategic refocusing of the Hypo Real Estate Group (€ 44 million) and the acquisition of Hypo Real Estate Holding AG shares by the group of investors coordinated by J.C. Flowers. The workforce as of 31 December 2008 comprised 1,786 employees (31 December 2007: 2,000 employees).

Impairments on goodwill and DEPFA's intangible assets In consequence of the collapsed interbank market in mid September 2008 it was no longer possible to conduct the business of DEPFA on the same basis as assumed at the acquisition date on 2 October 2007. The Hypo Real Estate Group has therefore revised its business model. Accordingly, new business in all business types will be considerably reduced, and the portfolios will be downsized. The future benefit which was originally used as the basis of valuing the goodwill and the other intangible assets no longer exists. Accordingly, an impairment totalling € –2,482 million was recognised in the third quarter of 2008 in relation to the goodwill and intangible assets of DEPFA. Of this figure, an impairment of € –2,223 million was recognised in relation to goodwill. In addition, the figures capitalised for brand names (€ –80 million completely), customer relationships (€ –165 million completely) and the acquired software of DEPFA (€ –14 million) were written off in the third quarter of 2008. The useful life of the software was shortened after the IT structure had been revised.

Balance of other income/expenses The balance of other income/expenses of € –47 million (2007: € –6 million) is due firstly to the mandatory convertible bond issued for financing the DEPFA acquisition. The mandatory convertible bond, converted on 20 August 2008, comprised an embedded multiple-component derivative based on shares of Hypo Real Estate Holding AG. According to IAS 39, the embedded derivatives must be separated from the basic contract and measured separately with its fair value. The change in fair value of € 180 million up to the conversion date had to be recognised in the income statement. The fair value of the embedded derivative of € 276 million had to be derecognised from retained earnings when the mandatory convertible bond was converted. Secondly, the balance of other income/expenses also includes restructuring expenses of € 225 million incurred in connection with the strategic refocusing and restructuring of the Hypo Real Estate Group. Provisions were built in relation to the planned reduction in the number of employees, the closing of locations and expenses for consulting services.

Pre-tax profit/loss Pre-tax profit for the year 2008 was clearly negative at € –5,375 million, compared with a positive pre-tax profit of € 862 million which was reported for the previous year.

Taxes on income A current tax expense of € 62 million and deferred tax expenses of € 24 million for financial year 2008 leads to an overall tax expense of € 86 million. Due to the relocation of place of business the deferred taxes were to be evaluated with the future lowered tax rate.

Net income Net income in 2008 amounted to € –5,461 million; this figure is attributable in full to the shareholders, because there are no minority interests.

Business segment Commercial Real Estate

Key Financials		2008	pro forma 2007
Operating performance			
Operating revenues	in € million	876	963
Net interest income and similar income	in € million	756	760
Net commission income	in € million	95	152
Net trading income	in € million	−45	2
Net income from financial investments	in € million	58	36
Net income from hedge relationships	in € million	—	6
Balance of other operating income/expenses	in € million	12	7
Provisions for losses on loans and advances	in € million	1,066	66
General administrative expenses	in € million	155	180
Balance of other income/expenses	in € million	−5	—
Pre-tax profit	in € million	−350	717
Key ratio			
Cost-income ratio (based on operating revenues)	in %	17.7	18.7

The Commercial Real Estate segment mainly comprises the commercial real estate financing operations of Hypo Real Estate Bank AG. The segment accordingly comprises the German and international activities in the field of commercial real estate financing.

In 2008, pre-tax profit was negative (€ −350 million) and lower than the pro forma previous year figure of € 717 million. This decline was mainly attributable to lower operating revenues, which amounted to € 876 million (2007: € 963 million) and sharply higher provisions for losses on loans and advances. Operating revenues declined mainly as a result of lower net commission income and net trading income. New business in the Commercial Real Estate segment amounted to € 7.8 billion in 2008, compared with € 32.1 billion in the previous year. New business was reduced considerably in the course of the year as a result of the deterioration in the market situation and the difficult liquidity position, almost completely discontinued in the fourth quarter. However, because there was also a sharp decline in prepayments and because the drawing ratio also increased, there was a minor decline in the volume of commercial real estate financing which was paid out.

Net interest income decreased to € 756 million due to lower income from new business, compared with € 760 million in the previous year. Net commission income declined to € 95 million (2007: € 152 million) as a result of the lower volume of new business and lower income from new business with customer derivatives. In net trading income, interest positioning and market value adjustments due to counterparty risks resulted in a loss of € −45 million compared with € 2 million in the previous year. As a result of higher gains from the disposal of securities, net income from financial investments improved to € 58 million (2007: € 36 million). Because the changes in the values of underlyings and the changes in the values of hedges balanced each other out completely, no net income from hedge relationships was recorded (2007: € 6 million). The balance of other income/expenses amounted to € 12 million (2007: € 7 million) and was attributable to currency changes recognised in the income statement.

The additions to provisions for losses on loans and advances increased appreciably to € 1,066 million, after having been comparatively low in the previous year at € 66 million. The sharp increase reflects the downturn in the general economic climate and the deterioration of the situation in some real estate markets. Thus, on the one side the customers' financial solvency declined and on the other side values of securities. It was necessary for impairments to be recognised particularly in relation to real estate financing in Germany, Great Britain, Spain and the USA.

At € 155 million, general administrative expenses were lower compared with the previous year figure of € 180 million. Higher IT expenses were clearly overcompensated by lower personnel expenses. However, because operating revenues declined virtually to the same extent, the cost-income ratio was almost unchanged at 17.7 % (2007: 18.7 %).

Business segment Public Sector & Infrastructure Finance

Key Financials		**2008**	**pro forma 2007**
Operating performance			
Operating revenues	in € million	609	834
Net interest income and similar income	in € million	730	579
Net commission income	in € million	−39	43
Net trading income	in € million	−124	−18
Net income from financial investments	in € million	13	205
Net income from hedge relationships	in € million	26	29
Balance of other operating income/expenses	in € million	3	−4
Provisions for losses on loans and advances	in € million	420	—
General administrative expenses	in € million	75	152
Balance of other income/expenses	in € million	−8	—
Pre-tax profit	in € million	106	682
Key ratio			
Cost-income ratio (based on operating revenues)	in %	12.3	18.2

The Public Sector & Infrastructure Finance segment mainly comprises the public sector finance business of DEPFA as well as the infrastructure finance arrangements which are now pooled in DEPFA.

Compared with the pro forma figures of the previous year, the pre-tax profit of the segment declined significantly to € 106 million in 2008 (2007: € 682 million). This decline is mainly attributable to higher provisions for loans and advances, lower profits from the sale of receivables and securities as well as a decline in net trading income resulting from the turmoil on the financial markets. New business in the Public Sector Finance segment amounted to € 31.6 billion in 2008 (2007: € 57.5 billion) and amounted to € 2.9 billion in the Infrastructure Finance segment (2007: € 12.3 billion). New business in the Public Sector Finance segment was considerably reduced as a result of the deterioration in the market situation and the difficult liquidity situation in the course of the year, and was almost completely discontinued in the fourth quarter. Since the middle of the third quarter, no new business was closed in the field of infrastructure finance. However, because prepayments have also declined sharply and because the drawing rate has increased appreciably, the volume of public sector and infrastructure finance paid out has increased.

The lower gains from the sale of financial investments and receivables and the decline in net trading income have been reflected in operating revenues, which fell to € 609 million (2007: € 834 million). The item "net interest income and similar income" increased from € 579 million to € 730 million. This increase was mainly attributable to a noticeable improvement in yields of new business in the first half of 2008, a volume of infrastructure financing which on average was higher in comparison with the previous year, income from drawn liquidity facilities and income which was generated in the money market field as a result of the lower level of interest rates particularly in the fourth quarter of 2008. Earnings from the sale of receivables and profits attributable to the redemption of liabilities were lower than the corresponding previous year figures. Moreover, net interest income was depressed by expenses in relation with the liquidity support. Also the net commission income reflected the costs of liquidity support and at € – 39 million was considerably lower than the corresponding previous year figure (2007: € 43 million). Net trading income amounted to € – 124 million in 2008, compared with € – 18 million in the previous year. In the third quarter of 2008, expenses of € – 120 million occurred due to the massive market turmoil during the process of rehedging and measuring derivative positions with regard to Lehman Brothers. After spreads widening had had a negative impact on the price of public sector finance paper, lower volumes of financial investments were sold. Net income from financial investments accordingly declined to € 13 million, compared with the figure of € 205 million reported for the corresponding previous year period. As a result of hedge inefficiencies within the range admissible in accordance with IAS 39 the net income from hedge relationships amounted to € 26 million (2007: € 29 million). The balance of other operating income/expenses amounted to € 3 million (2007: € – 4 million).

As a result of the economic downturn, it was necessary to make additions of € 420 million to provisions for losses on loans and advances in the Public Sector & Infrastructure Finance segment (2007: € 0 million). In addition to portfolio-based allowances, it was also necessary to create individual allowances in relation to an infrastructure financing arrangement and also in relation to public sector financing arrangements. General administrative expenses fell to € 75 million due to reduced bonus accruals (2007: € 152 million). Because general administrative expenses declined to a greater extent than operating revenues, the cost-income ratio improved to 12.3 % compared with 18.2 % in the previous year.

Business segment Capital Markets & Asset Management

The Capital Markets & Asset Management segment comprises all activities of the Group which are related to the capital market as well as asset management for real estate secondary products. The main products in this segment are customer derivatives, securitisations and selected asset management solutions.

As was the case in the second half of 2007, the turmoil on the financial markets had an impact on the results of operations of the Capital Markets & Asset Management segment. In consequence, pre-tax profit for 2008 amounted to € – 538 million compared with a figure of € – 82 million in the previous year on the basis of pro forma figures.

The worse result is reflected in the operating revenues, which were negative at € – 506 million, whereas they had been slightly positive in the previous year (€ 19 million). At € 73 million, net interest income did not reach the previous year figure of € 85 million. A positive effect of € 17 million resulting from the termination of a reverse repo transaction in the third quarter of 2008 was overcompensated by effects resulting from the extensive decline in the value of assets and interest expenses for the liquidity support. Net commission income fell from € 44 million in the previous year to € 5 million, mainly because less income was generated from business with customer derivatives and asset management and also because expenses were incurred for liquidity support. Net trading income, which amounted to € – 518 million (2007: € – 63 million),

Key Financials

		2008	pro forma 2007
Operating performance			
Operating revenues	in € million	–506	19
Net interest income and similar income	in € million	73	85
Net commission income	in € million	5	44
Net trading income	in € million	–518	–63
Net income from financial investments	in € million	–61	–23
Net income from hedge relationships	in € million	–5	–24
Balance of other operating income/expenses	in € million	—	—
Provisions for losses on loans and advances	in € million	—	1
General administrative expenses	in € million	32	100
Balance of other income/expenses	in € million	—	—
Pre-tax profit	in € million	–538	–82
Key ratio			
Cost-income ratio (based on operating revenues)	in %	> 100.0	> 100.0

reflected the fact that credit spreads had widened as a result of the financial market crisis and because of market value adjustments due to counterparty risks. Credit spreads recovered slightly in the second quarter of 2008, but deteriorated significantly again in the second half of 2008 as some markets collapsed. Expenses of € –24 million resulting from derivatives with regard to Lehman Brothers were also incurred in the third quarter of 2008. Net income from financial investments includes impairments on securities and the effect of the initial consolidation of Quadra Realty Trust, Inc., New York, of € 22 million after transaction costs. Net income from hedge relationships amounted to € –5 million, because the changes in the value of underlyings resulting from the lower level of interest rates were not completely offset by the hedging instruments within the range admissible in accordance with IAS 39 (2007: € –24 million). As was the case in the previous year, the balance of other operating income/expenses was € 0 million.

In the field of lending business, it was not necessary to make any additions to provisions for losses on loans and advances (2007: portfolio-based allowances of € 1 million). General administrative expenses declined in line with the overall reduction of business, reduced bonus accruals and the deconsolidation of Collineo Asset Management GmbH from € 100 million in the previous year to € 32 million.

Corporate Center

The Corporate Centre comprises consolidation transactions as well as contributions to earnings made by non-strategic portfolios such as the CDO portfolio and the now hedged interest positions of DEPFA from the period before the acquisition by Hypo Real Estate Group. It also comprises contributions to earnings from Hypo Real Estate Holding AG such as impairments relating to the holding in Babcock & Brown.

Key Financials

		2008	pro forma 2007
Operating performance			
Operating revenues	in € million	−1,564	−353
Net interest income and similar income	in € million	74	47
Net commission income	in € million	−29	−5
Net trading income	in € million	−322	−195
Net income from financial investments	in € million	−1,419	−212
Net income from hedge relationships	in € million	65	—
Balance of other operating income/expenses	in € million	67	12
Provisions for losses on loans and advances	in € million	170	−128
General administrative expenses	in € million	343	224
Impairments on goodwill and DEPFA's intangible assets	in € million	2,482	—
Balance of other income/expenses	in € million	−34	−6
Pre-tax profit	in € million	−4,593	−455

The high charges resulting from the financial market crisis and the changed situation of the Hypo Real Estate Group are mainly reflected in the Corporate Centre. In consequence, the pre-tax profit amounted to € −4,593 million (2007 on the basis of pro forma figures: € −455 million).

Net interest income increased to € 74 million (2007: € 47 million) because of the non-payment and devaluation of some instruments of subordinated capital. In contrast, net interest income in 2008 included fewer one-off effects attributable to sales of receivables and prepayment penalties than was the case in the previous year. Net commission income was affected by the expenses of liquidity support and declined to € −29 million (2007: € −5 million). Net trading income of € −322 million (2007: € −195 million) was affected by fair value changes of synthetic CDOs recognised in the income statement of € −395 million (2007: € −198 million). The main items in net income from financial investments were impairments of € −762 million in relation to cash CDOs (including € 70 million for the partial reversal of the model reserve for uncertainty with regard to assumptions and estimates in the second quarter of 2008; 2007: € −268 million including € 90 million for the creation of the model reserve), impairments of € −74 million in relation to shares of Babcock & Brown, impairments in relation to other securities like MBS as well as portfolio-based allowances of € −24 million in relation to assets which were reclassified into the category LaR in accordance with IAS 39. The net income from hedge relationships was positive at € 65 million (2007: € 0 million) as a consequence of positive hedge inefficiencies within the range which is admissible under IAS 39. The balance of other operating income/expenses mainly comprised positive effects from foreign currency translation.

Provisions for losses on loans and advances contain primary an impairment of a cash CDO wrapped as a bonded loan in the amount of € −84 million. General administrative expenses increased as a result of significantly higher expenses for consulting services. The impairments of € −2,482 million in relation to goodwill and intangible assets of DEPFA were allocated to the Corporate Center. The balance of other income/expenses comprises the income of € 180 million attributable to the derivative embedded in the mandatory convertible bond. This was opposed by expenses incurred in connection with the strategic refocusing and restructuring of the Hypo Real Estate Group.

Development in Assets

Assets

in € million	31.12.2008	31.12.2007
Cash reserve	1,713	10,654
Trading assets	17,287	20,552
Loans and advances to other banks	49,409	51,975
Loans and advances to customers	222,048	213,173
Allowances for losses on loans and advances	−2,277	−905
Financial investments	108,740	88,851
Property, plant and equipment	32	68
Intangible assets	40	2,555
Other assets	17,396	9,870
Income tax assets	5,266	3,381
Current tax assets	132	114
Deferred tax assets	5,134	3,267
Total assets	**419,654**	**400,174**

The total assets of the Hypo Real Estate Group amounted to € 419.7 billion as of 31 December 2008 compared with € 400.2 billion as of 31 December 2007. The increase of total assets resulted from higher financial investments and other assets.

Other assets increased due to higher positive market values from derivative hedging financial instruments which increased as a consequence of the lower interest rate level. The trading assets were reduced in response to the turmoil on the international financial markets. In addition, trading assets also declined as a result of HfT assets being reclassified as LaR financial investments in accordance with IAS 39. The intangible assets declined because the goodwill as well as the brand names, the customer relationships and software of DEPFA were written off. The cash reserve at the end of 2007 was unusually high as a result of the short-term parking of cash with the central bank. These funds were invested in the first quarter of 2008. This resulted in particular in a higher volume of financial assets, and in particular a higher volume of bonds and debt instruments. In financial investments this also reflected the strong new business in the Public Sector & Infrastructure Finance segment in the first two quarters of 2008 and the drawn liquidity facilities. On the other hand, the dFVTPL financial assets declined as a result of a portfolio sale. Following the complete acquisition and subsequent full consolidation of Quadra Realty Trust, Inc., New York, the shares no longer accounted for using the equity method.

The volume of receivables was virtually unchanged compared with previous year end. Loans and advances to other banks declined appreciably as a result of significantly lower investments in response to the crisis on the interbank market. On the other hand, loans and advances to customers increased as a result of the growth in the portfolio of Public Sector and Infrastructure Financing. The contingent liabilities which are attributable to the overall volume of lending amounted to € 1.3 billion as of 31 December 2008 (31 December 2007: € 4.4 billion). The total volume of lending, which comprises loans and advances to banks and loans and advances to customers, excluding cash investments, as well as contingent liabilities amounted to € 267.3 billion as of 31 December 2008, compared with € 256.2 billion at the end of 2007.

Development in the Financial Position

Equity and liabilities

in € million	31.12.2008	31.12.2007
Liabilities to other banks	146,878	111,241
Liabilities to customers	15,936	27,106
Liabilities evidenced by certificates	197,978	218,080
Trading liabilities	17,236	14,835
Provisions	352	144
Other liabilities	33,835	14,722
Income tax liabilities	4,163	2,357
Current tax assets	161	116
Deferred tax assets	4,002	2,241
Subordinated capital	4,784	5,615
Liabilities	**421,162**	**394,100**
Equity attributable to equity holders	−1,508	6,074
Subscribed capital	633	602
Additional paid-in capital	6,352	5,926
Retained earnings	1,085	943
Revaluation reserve	−4,117	−1,857
AfS reserve	−3,115	−346
Cash flow hedge reserve	−1,002	−1,511
Consolidated loss/profit	−5,461	457
Profit carried forward from prior year	—	3
Minority interest in equity	—	—
Equity	−1,508	6,074
Total equity and liabilities	**419,654**	**400,174**

Total Group liabilities amounted to € 421.2 billion as of 31 December 2008, compared with € 394.1 billion as of 31 December 2007.

The sum of liabilities evidenced by certificates, liabilities to customers and liabilities to other banks has declined only slightly. However, there have been major shifts between the individual items in response to the intensifying financial crisis and the collapse of individual markets. Accordingly, liabilities evidenced by certificates declined because it was becoming more and more difficult to place issues. In response to this development, the Hypo Real Estate Group had to use central bank funds to a greater extent. After the interbank market was also disrupted, the Hypo Real Estate Group received support from a syndicate from the German financial sector and the Bundesbank with the involvement of the Federal Government and also from the financial market stabilisation fund. The liabilities attributable to this support are mainly shown under liabilities to other banks.

The reduced level of trading activity was reflected in lower trading liabilities. The other liabilities have increased compared with the previous year. This increase is attributable to the development of negative market values of derivative hedging instruments, which worsened as a result of the changed level of interest rates. Provisions increased as a result of the new provision created for the strategic refocusing and restructuring of the Hypo Real Estate Group.

Shareholders' equity (excluding revaluation reserve) amounted to € 2.6 billion as of 31 December 2008, compared with € 7.9 billion as of 31 December 2007. This decline is attributable to the Group loss in 2008. On the other hand, as a result of conversion of the mandatory convertible bond which was issued in 2007, subscribed capital increased by € 30 million, and additional paid-in capital increased by € 420 million. Conversely, subordinated capital declined. Overall, 9,976,258 shares each with a nominal value of € 3.00 were issued on 20 August 2008.

The revaluation reserve has declined by € 2.3 billion compared with the previous year. Thereby the AfS reserve declined to € – 3.1 billion as of 31 December 2008, compared with a figure of € – 0.3 billion as of 31 December 2007. This development was mainly due to price adjustments in the first half of 2008. The considerable decline in the AfS reserve was mainly caused by widening of credit spreads of public sector finance paper in Italy, Greece, the USA and Poland. In addition, the AfS reserve also includes the effects attributable to the valuation of structured products and debt instruments of banks. In accordance with the IAS 39 amendment "Reclassification of financial assets" which was published by the IASB and endorsed by the EU in October 2008, the Hypo Real Estate Group has reclassified assets out of the category available-for-sale into loans and receivables with a carrying amount of € 76.1 billion retrospectively as of 1 July 2008. Without this reclassification, the AfS reserve after tax would have been € 7.1 billion lower on 31 December 2008. The cash flow hedge reserve amounted to € – 1.0 billion, compared with € – 1.5 billion at the end of the previous year. The change was mainly due to the level of interest rates which had fallen appreciably towards the end of 2008.

The other commitments declined to € 13.2 billion compared with the end of the previous year (€ 35.5 billion). This figure includes liquidity facilities issued by DEPFA, which declined from € 16.5 billion as of 31 December 2007 to € 1.9 billion. The liquidity facilities comprise products which are sold on the US market and which are linked to the issues of tax-free municipal bonds. The decline in the liquidity facilities is attributable to the utilisation of the credit lines, some of which have already been repaid. Loans and advances which have not been paid out, or which have not been completely paid out, are reflected in the irrevocable loan commitments, and amounted to € 11.3 billion as of 31 December 2008, compared with € 17.3 billion as of 31 December 2007. The decline in the irrevocable loan commitments reflects the higher drawing rate of real estate and public sector financing.

Regulatory indicators according to German Solvency Regulation[1)]

Taking into account the negative net income for 2008, the regulatory minimum ratio requirements would not have been met by 31 December 2008. According to German regulatory standards, the calculation of own funds for the due date 31 December 2008 had to happen without the year end results, due to the fact that at the time of the Solvency Reporting to the Supervisors, the approved annual financial statement was not yet existing. This would have been the prerequisite to include the net result.

Currently, the dialogue with the financial market stabilisation fund regarding the capital support for Hypo Real Estate Group is in an advanced stadium. Hypo Real Estate Group assumes to meet the regulatory ratios for minimum capitalisation by the support of the financial market stabilisation fund.

For Hypo Real Estate Group the capital for regulatory purposes (according to German Solvency Regulation [SolvV]) is as follows:

[1)] To calculate the regulatory figures, the definition of capital according to SolvV was utilised. The risk-weighted assets were also calculated on the basis of SolvV. For these risk-weighted assets, the amounts were calculated according to the Advanced Internal Rating Based Approach for those portfolios, for which the Hypo Real Estate Group has received the approval from the German Federal Financial Supervisory Authority. This applies primarily to Hypo Real Estate Bank AG, Hypo Public Finance Bank and Hypo Pfandbriefbank International. For the entities of the former DEPFA Group, the risk-weighted assets were calculated according to the Standardised Approach. For calculating the capital requirements for operational risk, the Standardised Approach was applied across the entire group. For the calculation of the core capital ratio the risk-weighted counterparty risk positions plus the 12.5-multiple of the operational risks plus the 12.5-multiple of the markets risk positions are used.

Own funds[1)]

in € million	31.12.2008[2)]	31.12.2008[3)]	31.12.2007[2)4)]	31.12.2007[3)4)]
Core capital	5,897	2,928	9,257	9,463
Supplementary capital	2,275	2,069	2,905	2,942
Equity capital	**8,172**	**4,997**	**12,162**	**12,405**
Tier III capital	—	—	—	—
Total	**8,172**	**4,997**	**12,162**	**12,405**

1) Consolidated pursuant to section 10a German Banking Act (KWG)
2) Before approved annual financial statements and before profit distribution
3) As per approved annual financial statements and after profit distribution
4) According to Principle I

Hence the capital ratios as of 31 December 2008 are as follows:

Key capital ratios

in %	31.12.2008[1)3)]	31.12.2008[1)4)]	31.12.2007[2)3)]	31.12.2007[2)4]
Core capital ratio	6.2	3.4	8.5	8.7
Equity capital ratio[5)]	9.0	6.0	11.8	12.0
Own funds ratio (overall indicator)	8.6	5.7	11.1	11.4

1) Including counterparty risk positions, weighted market risk positions and weighted operational risks
2) According to Principle I; including counterparty risk positions and weighted market risk positions
3) Before approved annual financial statements and before profit distribution
4) As per approved annual financial statements and after profit distribution
5) Excluding weighted market risk positions

The changes resulted primarily from the switch in the calculation methodology for the risk-weighted assets (RWA) from the Principle I logic to the Basle II values according to the SolvV as well as the initial voluntary deduction of asset side differences from core capital (Tier I) of € 2,862 million.

Refinancing

In the course of 2008, the general situation on the refinancing markets became even more serious. After the US bank Lehman Brothers had to apply for protection against creditors in September 2008, the following market trends became even more pronounced:

1) Ever shorter-dated money market maturities: previous deposits, repos and commercial paper which had been executed with tenors of three to six months were replaced if at all with tenors of significantly below one month or not at all.
2) Rising refinancing costs: as a result of credit markets becoming increasingly illiquid, the Libor interest rates in interbank market were considerably higher than the reference rates of the central banks.
3) Stressed and disrupted interbank markets: banks were becoming less and less willing to lend each other money. This meant that central banks throughout the world carried out concerted action to supply liquidity to the affected markets.

Before September 2008, despite the fact that the financial market crisis was becoming even more serious, Hypo Real Estate Group was still able to place several secured and unsecured refinancing transactions successfully. In the first three months of 2008, mortgage Pfandbriefe with a volume of € 960 million were issued. A jumbo mortgage Pfandbrief with a volume of € 1 billion was issued in April 2008. The volume of this bond was stepped up to € 1.3 billion in June 2008. With regard to public Pfandbriefe, a € 2 billion jumbo Pfandbrief with a term of five years was issued in the first quarter of 2008, and a two-year jumbo Pfandbrief with a volume of € 2 billion was placed in the third quarter of 2008. Sales of bonded loans predominated among the unsecured transactions.

However, DEPFA BANK plc had mainly used short-term refinancing sources. For instance, in the first quarter of 2008, the volume of money market transactions during the financial year amounted to € 160 billion. The average term of commercial paper and deposit transactions became shorter and shorter as the year progressed. After September 2008, this source of funding almost completely disappeared as a result of the financial market crisis which was becoming more and more serious. For the Hypo Real Estate Group, this resulted in a liquidity shortage which threatened the Group's existence. This could only be solved with extensive support provided by a syndicate from the German financial sector and the Bundesbank with the involvement of the Federal Government as well as from the financial market stabilisation fund. The individual measures are described extensively in the section "Major events".

In response to the existence-threatening liquidity situation of the Hypo Real Estate Group, the Management Board has set up a new Group-wide treasury organisation. This has replaced the previous local structure, in which the refinancing activities of the Hypo Real Estate Group were managed by the operating segments individually.

Summary

Since the third quarter of 2008, the crisis on the capital and financing markets has become even more serious. The crisis of confidence affecting the interbank money market has resulted in the almost complete collapse of the interbank market. Because the business model of the Hypo Real Estate Group was very much dependent on short-term refinancing sources, this resulted in a liquidity shortage which threatened the Group's existence. The Group could only continue its business activities because extensive support had been provided by a German finance syndicate and the Deutsche Bundesbank with the involvement of the Federal Government as well as the financial market stabilisation fund.

The crisis on the capital and financing markets and the changed situation of the Hypo Real Estate Group also had a considerable impact on the income statement of the Hypo Real Estate Group.

An impairment of € 2,482 million has been recognised in relation to the goodwill and the intangible assets of DEPFA. In addition, net trading income was affected by the fair value changes of synthetic collateralised debt obligations which were recognised in the income statement as well as the credit spread changes of numerous trading assets, such as monoliners. Financial assets such as cash collateralised debt obligations, Mortgage-backed securities shares in Babcock & Brown as well as positions with regard to Lehman Brothers and Icelandic counterparties had to be written off in part. Expenses were also incurred as a result of the strategic refocusing and restructuring of the Group. Overall, pre-tax profit was clearly negative as a result of these items.

Report on Related Party Transactions

With effect from 14 March 2008, Quadra Realty Trust, Inc., New York, which was previously accounted for using the equity method, became a wholly owned subsidiary of Hypo Real Estate Capital Corporation. The 65.3 % of shares in Quadra Realty Trust, Inc., which it has previously not owned, were acquired for a price of US $ 10.6506 per share in cash. When the offer was accepted, Quadra Realty Trust, Inc., additionally announced a dividend of US $ 0.3494 (a total of US $ 9 million), so that external shareholders received a total of US $ 11.00 for each Quadra share.

A group of investors coordinated by J.C. Flowers acquired 24.9 % of the former stock of shares of Hypo Real Estate Holding AG following a public purchase offer. In financial year 2008, none of the investors included in the Group held more than 10 % of the shares of Hypo Real Estate Holding AG.

Apart from the above, no material related party transactions were carried out in 2008.

Events after 31 December 2008

Events before and after the balance sheet date concerning the steps to stabilise Hypo Real Estate Group as well as changes in ratings and personnel are described in the chapter “Major events”.

With regard to the declaration of intent as of 28 March 2009 of the financial market stabilisation fund we refer to the forecast report.

On 13 February 2009 DEPFA BANK plc, a member of Hypo Real Estate Group, has entered into a definitive contract to sell its subsidiary DEPFA First Albany Securities LLC (DEPFA First Albany) to the New-York-based investment bank Jefferies & Company, Inc. The planned divestiture of DEPFA First Albany marks a further step in restructuring Hypo Real Estate Group’s business model and repositioning the Company as a specialised real estate and public sector lender focusing on Germany and Europe. The sale of DEPFA First Albany remains subject to regulatory approvals and certain closing conditions. The transaction is expected to close by April 2009. The parties have agreed not to disclose financial details of the transaction. The deconsolidation result arises mainly from the amount of the currency reserve.

Apart from the above, there have been no notable events after 31 December 2008.

Risk Report

The combination of the international financial market crisis with the refinancing model of DEPFA BANK plc, Dublin, has meant that Hypo Real Estate Group is now in a situation in which its very existence is at risk. Both factors also underline the liquidity risk as one of the four major risk types for the Group. Since the acquisition of DEPFA BANK plc in 2007, Hypo Real Estate Group has had a relatively high percentage of short-term refinancing, whereas assets were – and are still – mainly of a long-term nature. Following the collapse of the US investment bank Lehman Brothers in mid-September 2008, it became virtually impossible to obtain short-term refinancing: the interbank market dried up completely, the run on US money market deposits exacerbated the situation and alternative financing by way of repos and securities lending business became increasingly difficult as a result of higher margin calls. In the final analysis, it was only possible for the necessary liquidity to be obtained for Hypo Real Estate Group by way of a credit facility from a syndicate from the German financial sector and the Bundesbank with the involvement of the Federal Government as well as liquidity guarantees from the financial market stabilisation fund.

The crisis has also highlighted weaknesses in the risk management instruments of Hypo Real Estate Group; these have subsequently been revised and improved.

The risk report provides information concerning the organisation and principles of risk management, external audits, major risk types and economic capital as the standard for internal quantification of risks which are associated with the Group's business activities.

Organisation and Principles of Risk Management

Organisation and committees

Management Board and Supervisory Board Risk management of Hypo Real Estate Holding AG is managed by the Management Board and Supervisory Board as well as the committees described in the following:

Organisation of risk management of Hypo Real Estate Holding AG

The central Management Board of Hypo Real Estate Holding AG bears overall responsibility for the Group-wide risk management system, and is responsible for taking decisions in relation to all strategies and key issues of risk management and risk organisation at the suggestion of the Group Chief Risk Officers (Group CRO). These comprise the following:

- Defining, updating and communicating business and risk strategies as the basis of business activities and risk acceptance for all units in the Group
- Defining and improving organisation structures for the Group and in particular for risk management, which ensures that all major risks are managed and monitored
- Adopting credit competence guidelines as the decision-making framework along credit processes
- Taking decisions regarding (portfolio) management measures outside the competences which have been transferred.

The Management Board regularly informs the Supervisory Board of Hypo Real Estate Holding AG with regard to the Group-wide business and risk strategies and the risk profile of Hypo Real Estate Group as well as the specific business and risk strategies at the level of the operating subsidiaries. The Supervisory Board reviews the risk strategy as well as compliance with the risk strategy at regular intervals. In view of the fundamental importance of risk management for the Group, and also in view of the difficult situation of the Company, the new Management Board and the Supervisory Board set up a further committee for risk management and liquidity strategy at the Group level in addition to the existing Audit Committee in the second half of 2008. The Risk Management and Liquidity Strategy Committee (RLA) deals mainly with the monitoring, installation and improvement of an efficient risk management system, the valuation methods/results with regard to credit/market and other risks as well as liquidity management and liquidity assurance of the Group.

The Management Board has set up a Risk (Management) Committee (Group R[M]C) and an Asset Liability Committee (Group ALCO) at Group level. Both committees are a key component of the central bank management of the Group; the tasks and responsibilities of the various committees are detailed in the following.

Group Risk (Management) Committee (Group R[M]C) Group R(M)C met until the end of 2008 headed by the Group Chief Risk Officer (Group CRO), and comprised the Group Chief Financial Officer (Group CFO), the CROs of the subsidiaries, the heads of the office areas of the CRO, Group Risk Control, Group Finance as well as the heads of the Credit Risk Management departments of the segments. The major tasks of the committee were providing regular advice, taking decisions within the framework of the delegated competence and making recommendations and sending reports to the Group Management Board and the management boards of the subsidiaries for suitable management measures concerning

- Risk bearing capability (ICAAP)
- Credit risk, market risk, operational risk as well as other risk types
- Review of the portfolio on the basis of suitable risk parameters and limits for risks
- in particular credit and market risks
- Introduction of consistent risk measurement and effective risk monitoring methods and reports (including the introduction of risk policies and risk manuals).

At the end of 2008, the tasks and responsibilities of the R(M)C were thoroughly revised. The new processes were implemented in the first quarter of 2009. The new Group Risk Committee (Group RC) focuses on managing all risk types on the basis of standard reports and individual evaluations. It consists of the Group Chief Risk Officer (Group CRO), the Group Chief Financial Officer (Group CFO), the Group COO, the Chief Credit Officer of the operating segments, the head of Group Risk Management & Control as well as the head of Intensive Care/Workout. The core tasks comprise the following:

ICAAP
- Managing and defining the ICAAP strategies, policies, methods and parameterisation
- Developing proposals regarding the risk cushion/risk propensity as well as overall bank limits for approval by the Management Board

Credit risk
- Developing strategies, guidelines, policies and methods
- Setting limits and monitoring limits, including proposing countermeasures
- Taking decisions with regard to portfolio measures and providing support to the ALCO for implementing these decisions

Market risk
- Developing strategies, guidelines, policies and methods, parameterisation and models
- Setting limit structures and monitoring these limits, including proposing countermeasures
- Submitting proposals for portfolio measures to the Asset & Liability Committee (ALCO, see below)

Liquidity risk
- Developing strategies, guidelines and policies
- Determining cash flow assumptions and stress scenarios as well as transfer price method
- Setting and monitoring limits, including proposing countermeasures
- Proposing measures to the ALCO

Operational risk
- Developing strategies, guidelines and policies
- Monitoring current and potential risks as well as taking decisions with regard to necessary countermeasures
- Analysing the loss database
- Developing and monitoring a so-called "Business Continuity Plan"
- New product process (approval of new products and markets)

The new structure also combines close links with subcommittees (credit committees, risk committee [as of 2009: Risk Provision Committee], and watchlist committee), which are described below (Group CRO). Overall, the clearer distribution of tasks has resulted in improved liaison between the Group Risk Committee (Group RC) and the Group ALCO, which is described in the following passage.

Group Asset Liability Committee (Group ALCO) Until the end of 2008, the Group ALCO met monthly under the leadership of the Group CFO. The participants consisted of the Group CRO, the relevant members of the Management Board of affected operating segments, the heads of

Group Finance, Group Risk Control and the heads of the Group's areas responsible for treasury and refinancing.

The main tasks of the committee were optimising asset/liability management of the Group, managing market and liquidity risks as well as various other issues, including the following:

- Performance analysis of the banking and trading book
- Refinancing strategies
- Structure and management of the model books (shareholders' equity, loan loss provisions)
- Management of the Group's currency positions
- Introduction of new products, new areas of business and/or markets
- Discussion of policies and processes which apply throughout the Group with regard to asset/liability management.

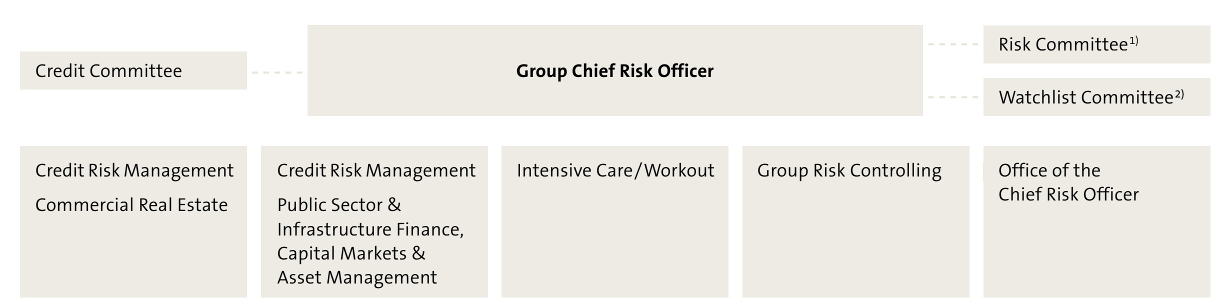
The responsibilities of Group ALCO were adjusted following the organisational changes announced at the end of December 2008 and the nomination of a member of the Management Board responsible for Group Treasury in the context of the liquidity problems of the Group. The restructuring affects the composition and tasks of Group ALCO, links to the ALCOs of the main subsidiaries and harmonisation of the interfaces to Group RC. The major tasks specified in the rules of procedure of the Group ALCO – in addition to reporting which comprises all relevant information – are providing advice and making recommendations to the Management Board with regard to

- Liquidity management and monitoring as well as preparing a contingency plan
- Capital allocation (including capital management)
- Portfolio management measures
- Development of refinancing strategies
- Structure and management of the model books (shareholders' equity, loss provisions, etc.)
- Management of the Group's currency positions
- Definition of the internal Group-wide transfer pricing.

Since the beginning of 2009, Group ALCO has met monthly under the leadership of the Group Treasury director. Further members of Group ALCO are the Group CRO, the Group CFO and the heads of Group Finance, Group Risk Control, Group Liquidity Management as well as Group Asset & Liability Management. Compliant with MaRisk, the rules of procedure of Group ALCO specify that the front office is not permitted to outvote the back office under any circumstances. In addition, the Group CRO must explicitly agree recommended actions which are submitted to the Management Board of the Holding to enable a decision to be taken. Individual issues such as the introduction of new products and the discussion regarding policies and procedures valid throughout the Group have been handed over to the Risk Committee (Group RC).

Group CRO In addition to the committees specified above, the following organisation entities of the Group CRO form an integral part of the risk management system:

Organisation entities of Chief Risk Officer of Hypo Real Estate Holding AG



1) as of 2009 Risk Provisioning Committee
2) from 2009

The organisation of the Group CRO function comprises like the back office functions entities of Credit Risk Management (CRM), the operating segments Commercial Real Estate, Public Sector & Infrastructure Finance and Capital Markets & Asset Management as well as Intensive Care/Workout, Group Risk Control and Office of the CRO (formerly: Risk Management Operating Office). The tasks of the CRM entities mainly comprise portfolio management and, at present to a lesser extent, the analysis of the new Management board. The Intensive Care/Workout function is the independent entity which deals exclusively with the restructuring and workout of critical exposures. In view of current market developments, this unit will be further expanded in terms of personnel in the course of 2009. The entity previously focused on cases from Commercial Real Estate; however, it is now also responsible for intensive monitoring of critical exposures from other operating segments. The entity will from then be known as “Global Workout”. Stricter processes and stringent monitoring are intended to ensure that the Bank is able to respond promptly in the event of potential negative changes, for instance affecting creditworthiness or collateral.

Marktfolge (back office) is supported by credit committees of the subsidiaries as the bodies responsible for taking lending decisions and also by the Risk Committee (as of 2009: Risk Provision Committee) for creating and reversing impairments.

In the credit committee meetings of the subsidiaries, which generally take place on a weekly basis, decisions are taken with regard to loan applications of the individual legally independent units of the Group (in certain cases via circulation processes). The CRO of the Group is an integral part of the individual credit committees, but is also able to delegate his powers to the committee. The members of the Committee comprise at least two representatives of Credit Risk Management (Marktfolge – back office). On the basis of valid competency allocation, this can comprise the CRO of the particular bank, the Senior Credit Executive or the Senior Credit Officer as well as representatives of Sales (Markt) (front office) and the corresponding member of the Management Board or the heads of the Sales units. According to MaRisk, Marktfolge (back office) cannot be outvoted by Markt (front office). The decision is based on various factors, including a prior intensive exchange between sales and Marktfolge (back office).

In 2008, the Risk Committee (as of 2009: Risk Provision Committee) focused on impairments and had the following primary objectives:

- Decisions regarding the creation and reversal of impairments for non-performing loans as well as preventative measures for risk management
- Report concerning changes to the risk provisioning of the Group.

The committee generally meets on a monthly basis and comprises the Group CRO, the CROs of the individual banks as well as the heads of Intensive Care/Workout and Group Finance. Decisions regarding the creation of impairments follow a defined credit competence allocation for impairments.

In addition, the year 2009 will see the introduction of a so-called Watchlist Committee which will meet on a monthly basis and will be responsible for taking decisions regarding the risk status of critical or potentially critical exposures as well as any necessary measures for avoiding or reducing defaults. In this Committee, decisions are taken with regard to handing over exposures to Global Workout, which comprises the restructuring and workout phases.

Group Risk Control deals with market-independent monitoring and steering of credit, market and liquidity risks throughout the Group. The office of the Chief Risk Officer corresponds to the former Group Risk Management Operating Office, which also deals with projects regarding risk management, credit processes and reports. In addition, it supports the development of risk strategies and, since December 2008, has also comprised the Group Operational Risk function.

In addition to the Group CRO function, the management system also comprises Group Compliance and Group Internal Audit, and it constantly monitors MaRisk compliance by way of regular audits of processes and systems. Risk management is also supported by Group Legal.

Risk strategy and policies

Risk strategy The Management Board of Hypo Real Estate Holding AG uses the proposals of the Group R(M)C as the basis for adopting decisions with regard to Group-wide risk strategy and limits.

The risk strategy is based on the Internal Capital Adequacy Assessment Process which assesses the bank's risk-bearing capacity as well as on the Group-wide business strategy, and comprises the risk propensity on the basis of economic capital, giving due consideration to a corresponding risk cushion, and the desired long-term rating of at least A (originally AA–). There are detailed risk strategies for major risk types (credit risk, market risk, liquidity risk and operational risk) as well as for operating segments.

- Appropriate sub-strategies and limits exist for each risk type, for instance credit risk limits for concentration risks, country risks, counterparty and large-exposure limits.
- Sub-strategies are described for each operating segment which define regions, loan to value ratios and ratings.

The risk strategy of the Group was adopted in mid-2008 by the Holding Management Board and the management boards of the subsidiaries, and is consistent with the business strategy in line with the Minimum Requirements for Risk Management (MaRisk).

In the fourth quarter of 2008, there was a strategic adjustment of the business strategy as described in the beginning of the Management Report due to market conditions and following the applications for state support submitted to the financial market stabilisation fund. The intended aim of the strategic restructuring is to position the Hypo Real Estate Group as a specialist real estate and public sector financier in Germany and Europe with Pfandbrief-oriented refinancing. The current risk strategy is being updated and adjusted accordingly.

Policies At Hypo Real Estate Group, risk policies describe risk measurement, monitoring, management and the limit definition process as well as the escalation process if a limit is exceeded for all major risk types (credit, market, liquidity and operational risk).

The risk policies are monitored as part of the regular updating process and are adapted where appropriate to the new business model. Risk policies have been adopted by the Group RC; since 2009, they have been adopted by the Group RC.

Risk steering and management

Risk steering and management in the Group is based on two pillars. The risk-bearing capacity is monitored by comparing the risk cover funds with the total risk of the Group, the so-called economic capital. The purpose of the comparison is to ensure that possible unexpected losses are covered by available funds or that countermeasures can be initiated in plenty of time. The aim of the risk cushion is to ensure that the available risk cover funds exceed the economic capital by 20% under normal circumstances. The risk-bearing capacity analysis is complemented by stress tests, and provides key management signals for the management of capital and risks. It is used as the basis for limiting risks, for instance for calculating country limits.

As the second pillar, operational risk management is based on the expected-loss approach consistent with Basle II. As part of the planned introduction of the Advanced IRBA approach, this management concept will also be implemented for the DEPFA units.

In addition to monitoring rating migrations, the exposures are additionally managed by way of limits which are allocated and monitored at the portfolio level and also within the framework of decisions relating to individual exposures. Market risk is limited and monitored on the basis of the value-at-risk approach.

In order to further standardise risk management, the Group has initiated a project for a Group-wide limit system. After the end of 2009, improved limits and management will be applied on the basis of a standard application which has been tested in the market.

Risk reporting

The regular risk reports for the Management Board of Hypo Real Estate Holding AG and the Management Boards of its subsidiaries include the following:

- Daily market and liquidity risk report
- Regular (in most cases monthly) report of the Risk Management Committee
- Quarterly Group Risk Report.

These reports provide the Management Board with a comprehensive overview as well as detailed information regarding the risk situation for each risk type and company. In addition, special reports are prepared on an ad hoc basis or at the request of the Management Board or Supervisory Board; these special reports consider specific and acute risk aspects, for instance in relation to critical markets, products or counterparties.

In addition to these reports which are addressed to management, the entire risk management organisation of the Group is notified of the risk position by way of numerous regular and ad hoc reports.

The Supervisory Boards of Hypo Real Estate Holding and also of the subsidiaries are notified at regular intervals, at least on a quarterly basis and at short notice if necessary, of the portfolio structure, the risk situation and special risk-relevant issues.

Risk reporting is being improved as part of the process of restructuring the Group. For instance, reporting to the Management Board on the liquidity position has been improved throughout the Group particularly as a result of a new liquidity risk report. This has been achieved by more consistent cash flow estimates on the basis of uniform assumptions. In addition, starting in 2009, the Supervisory Board approves/is being notified of all major exposures as well as all major individual allowances. By means of these and further adjustments, the aim is to further optimise the flow of information overall in order to enable suitable measures to be taken.

Integration of risk management

The process of integrating the risk management of the old Hypo Real Estate Group and DEPFA was completed to a large extent at organisational level in 2008, and will be finally implemented in the first half of 2009 within the framework of the introduction of Basle II and contains

- Business and risk strategies as well as corresponding policies
- Organisation and competence guidelines
- Credit processes, corresponding process instructions and manuals.

The integration of the IT systems, which have different basic systems and which have in the past been merged in a time-consuming manner, is being placed on a uniform platform as part of the “New Evolution” programme. This measure will make a further noticeable improvement to the possibilities for analysing risks and also the up-to-date nature of the individual risk reports. In addition, findings from external audits will be remedied in this way, as described in the following passage.

Major Audits in 2008

Audit of MaRisk (BaFin)

Hypo Real Estate Bank AG, Munich, the former Hypo Real Estate Bank International AG, Munich (merged with Hypo Real Estate Bank AG in 2008), Hypo Public Finance Bank, Dublin, DEPFA BANK plc, Dublin, as well as – in a separate audit – DEPFA Deutsche Pfandbriefbank AG in Eschborn were all audited in the spring of the year supervised by the Deutsche Bundesbank on behalf of the BaFin; the audit also covered compliance with MaRisk within the framework of an audit in accordance with section 44 KWG. In the final report of the first audit of 24 June 2008, a total of 53 findings were made in the areas of Risk, Finance, Treasury and IT; approximately 30 % of these findings were significant, but none were classified as serious. Many of these findings are attributable to a heterogeneous IT infrastructure which, in many cases, does not permit more consistent modelling of risks and a better evaluation of complex products. A task force which was set up specifically for this purpose was able to remedy more than two-thirds of all findings in 2008. In addition, starting in the first quarter of 2009, a more regular independent evaluation of banking book bond positions in DEPFA BANK plc will be established.

Most of the remaining outstanding risk management issues are IT-related and require fundamental adjustments in the systems. One of the key issues, namely the Group-wide limit system, is therefore included in the “New Evolution” programme which will be implemented in stages starting in 2009. Particular mention has to be made in this respect of better recognition of structured products in market risk management and in the ICAAP as well as consistent modelling of the credit spread risks. In addition, reporting on the daily liquidity situation as well as the projection of contractual cash flows will also be improved.

The BaFin and the Deutsche Bundesbank are constantly informed of the status of the findings which have been completed. Internal Audit also checks whether the individual findings have been properly remedied.

Basle II review

In the autumn of 2008, the BaFin carried out a review to determine the extent to which the requirements applicable to approving the application of the Advanced IRBA (see section “Basle II and rating systems”) have been satisfied. This review resulted in only a small number of findings, which relate mainly to issues of data quality. Work is ongoing in this respect.

Internal audits

Group Internal Audit is the Internal Audit department of the Hypo Real Estate Group, and independently audits all companies which belong to the Group, including the outsourced operations. In functional terms, Group Internal Audit reports directly to the CEO of Hypo Real Estate Holding AG. The audit activity of Group Internal Audit covers all operating and business processes of the Group, and in particular the functionality of the internal control system and the adequacy of the risk management and controlling processes as well as the compliance with relevant legal and regulatory requirements.

The audit plan for 2008 was defined at Group level in a risk-oriented manner and was approved by the Management Board of Hypo Real Estate Holding AG.

In the year under review, Group Internal Audit carried out a total of 93 audits Group-wide. Most of the audit findings related to the inadequate form of internal control processes in the front office and back office as well as inadequate compliance with IT standards. Approx. 25 % of the audit reports were assessed with the audit result “needs improvement” or “seriously deficient”. Seriously deficient issues were identified mainly at DEPFA BANK plc, and include the following general comments at this entity:

- Insufficient process and risk management processes
- Inadequate form of organisation guidelines
- Unclear and complex IT landscape
- Inadequate corporate governance structures.

The following specific findings were made:
- Collateral management: reconciliation differences with counterparties due to inadequate processes and IT support
- Nostro accounts: longer-term unclarified differences, lack of functional segregation as well as inadequate authorisation concepts
- Process management in customer data management: inadequate know-your-customer documentation, inadequate IT support in capturing and archiving customer data
- Credit processing: general backlog, including backlog in the annual rating review; inadequate monitoring of customer covenants in lending business due to lack of IT support

Management of DEPFA responded promptly to these findings by setting up a project designed to improve the risk management process and the control mechanisms; this project will be completed in the first half of 2009.

In the year under review, all critical or serious comments with a direct link to business were completed in Hypo Real Estate Bank AG; however, general issues relating to IT systems or risk controlling also refer to this entity.

At the Group level, product evaluation, inadequate reconciliation of risk controlling with reporting entities as well as inadequate liquidity risk reporting particularly in trading and liquidity management resulted in findings.

Management of the audited organisation entity is responsible for remedying these problems. Group Internal Audit monitors and documents whether the findings have been remedied on time.

It is expected that major improvements will be achieved, and that some findings will be remedied, as a result of the restructuring, the closing of locations, the Group-wide programme “New evolution” as well as the introduction of the Basle II Advanced IRBA at DEPFA in the first half of 2009 on the basis of MaRisk-compliant organisation and process structure.

Major Risk Types

Hypo Real Estate Group distinguishes the following major risk types for its business activities:
- Credit risk
- Market risk
- Liquidity risk
- Operational risk.

The following are further risk types which are taken into consideration for calculating the economic capital:
- Business risk
- Risks attributable to the Bank’s own investment and real estate portfolio.

Economic capital is calculated within the framework of the risk-bearing capacity analysis for all risk types apart from the liquidity risk. Scenarios for the liquidity risk are taken into consideration in stress tests (see also chapter “Risk-bearing capacity analysis”).

The credit risk represents the main risk measured in terms of the share of economic capital and also in accordance with the business model of Hypo Real Estate. However, in 2008, the liquidity risk proved to be an existence-threatening risk due to the business model of DEPFA BANK plc and the financial market crisis. The definition, risk measurement and management of all major risk types are explained in greater detail in the following passage.

Credit Risk

Definition

Credit risk is defined as the risk of the loss of value of a receivable or the partial or complete default of a receivable due to the default or downgrading of the rating of a business partner (credit risk). It also comprises the counterparty, issuer and country risks, which are defined as follows:

- Counterparty risks are possible losses of value of trades which are not fulfilled, in particular derivatives, due to the default of the counterparty. The following subcategories are defined in this respect:
  - Settlement risk, which is defined as the risk that, when a trade is settled, the counterparty fails to deliver the necessary consideration
  - Replacement risk is defined as the risk that, in the event of a counterparty default, the contract has to be replaced on less favourable terms.
- Issuer risk is the risk of the complete or partial loss of receivables from security investments due to the default of the issuer.
- Country risks are broken down into transfer and conversion risks as well as default risks. Transfer and conversion risks may arise as a result of state intervention which limits or prohibits the procurement of foreign currency or cross-border capital transfer of a solvent debtor. Counterparty risks may arise as a result of the default or downgraded rating of a country in its capacity as a debtor.

Credit risk strategy and principles

In the Commercial Real Estate segment, the Hypo Real Estate Group will concentrate on Pfandbrief-eligible business with an average loan-to-value of less than 70 %. In addition, the Group is prepared to support financing arrangements with a higher loan-to-value if the loans which cannot be refinanced by way of Pfandbriefe can be passed on directly to specialist investors (e.g. by way of syndication or sales of mezzanine tranches). In addition, the portfolio structure will be adjusted to the target portfolio by way of concentrating new business on the German and European market and also by way of a managed process of reducing existing financial arrangements (e.g. reduction at prolongation dates). And of course, customers in other markets will also be supported if they meet the risk and return requirements of Hypo Real Estate Group. The portfolio will be optimised by way of sales with a positive impact on earnings.

The intended credit portfolio structure will be defined by means of structure components which focus on the available risk cover fund, and include:

- Limiting of country risks
- Definition of strategic risks and return parameters (internal return on equity, target customers and regions, funding duration, etc.).

In order to implement specific details of its risk strategy, the Company has defined the following credit principles:

- New products, business types and/or new markets are subject to a comprehensive review as part of the "new product" process; they are documented in writing and adopted in the Risk (Management) Committee. The Internal Audit department is involved in the process within the framework of its tasks.
- There are limits for country exposures, large exposures and at the level of individual exposures. Group-wide approval and monitoring of the borrower units is based on the requirements of section 19 S. 2 KWG, and is the responsibility of Credit Risk Management in the subsidiaries.
- Credit decisions are based on various aspects, including the use of Basle-II-compliant tools and methods (e.g. probability of default – PD), determining the los-given default (LGD), expected loss (EL).
- Credit powers can be awarded to individual employees in line with their corresponding qualifications and experience.
- In line with the requirements of MaRisk, all credit decisions are taken in accordance with the principle of a check being performed by a second person, with one representative from Sales and one representative from independent Credit Risk Management within the limits of their powers.
- New business can be taken on only after checking an internal default database, in order to ensure that the counterparty has not already been defined as "in default" at another bank in the Group.

- Consistent contract standards corresponding to the particular segment are used throughout the Group.
- Criteria have been defined for passing an exposure to Intensive Care.

In 2009, the CRO function improved the entire credit limit system and also introduced a limit management system. A project was started in this respect in 2008 in the form of "New Evolution"; initial implementation of this project will be completed in 2009.

Credit risk steering and management

Central credit risk management at portfolio level is mainly carried out at Group level. Key elements of the analyses, for instance with regard to markets and major individual exposures, are supported by local credit specialists.

The key objectives of credit portfolio management are as follows:
- Timely monitoring of individual credit risks for avoiding defaults
- Reduction of the extent and fluctuation of credit risk costs
- Diversification of risk and return parameters
- Monitoring of risk concentrations on the basis of the economic capital.

The key elements for attaining these objectives are analyses for monitoring, reports and measures; these are presented below and are then described in detail:
- Calculation of the credit risk value-at-risk at portfolio level using a credit risk portfolio model
- Central Group-wide monitoring of risk concentrations by way of special regular and ad hoc evaluations
- Continuous analysis of the portfolio and the markets by the Credit Risk Management units
- Regular evaluation of loan collateral (at least annually)
- Special reports for exposures which are potentially at risk (e.g. "credit issue notes").

The above-mentioned items are to be extended and developed further in 2009.

Collateral At Hypo Real Estate Group, property collateral in the field of commercial real estate and infrastructure finance is particularly important. In addition, other financial securities and guarantees are also accepted as collateral (e.g. credit insurances, guarantees, fixed-income securities, etc.).

The value of collateral in the commercial real estate business is checked during the regular, annual creditworthiness assessment by the loan officers of the borrowers officers; external or internal appraisals are also used in the case of real estate collateral.

Real estate collateral is regularly checked by means of a multi-stage monitoring process. In the case of financed properties in Germany and Asia, the originally determined market value is extrapolated for a period of no more than three years in line with the market value fluctuation concept published by the Verband der Pfandbriefbanken (VdP). If this process establishes that the updated market value has changed by more than 10 % compared with the original market value (in the case of residential financed properties: 20 %), an indicative market value review has to be carried out. In other European countries and in the USA, all financed properties (with the exception of residential loans which were extended before 31 December 2007) are subjected annually to an indicative market value review.

Credit risk portfolio model Hypo Real Estate Group uses a credit portfolio model for determining the credit risk VaR. The credit risk of a borrower changes, or the borrower is considered to have defaulted, when certain limits are exceeded. These limits are determined on the basis of the rating of the borrower, a migration mix or the default vector and the volatility of a rating index via a Merton model. The creditworthiness is modelled by means of a stochastic process which comprises systematic and specific components and which takes account of the internal rating of the borrowers. The correlations are modelled over the systematic components of the rating index and over a ten-year history of relevant statistics. In addition, the loss of value takes account of stochastic risk curves, so that the credit-spread volatility is simulated extensively. The loss distribution for the portfolio and its sub-portfolios is then marginally calculated.

The calculation method was changed over to real volatility values in 2008. For the Hypo Real Estate portfolio, more representative credit risk drivers are now used and the previously used internal CDS spreads as the basis of determining volatility have been replaced by JP Morgan Asset Management spreads. The historical simulation is now based on actual historical values over a ten-year period.

Basle II: Advanced IRBA In mid-2008, Hypo Real Estate Group received regulatory approval for using the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) for determining the regulatory capital backing for Hypo Real Estate Bank AG, the former Hypo Real Estate Bank International AG and Hypo Public Finance Bank.

In 2008, the conditions associated with the approval were fulfilled and a corresponding report was submitted to the regulatory authorities.

The application of the Advanced IRBA was approved for the following PD rating and LGD methods:

- PD rating methods which are used in the case of commercial real estate financing: SPV investors, SPV developers, developers who prepare accounts, investors who prepare accounts, investors who do not prepare accounts, housing companies, companies constituted under civil law (Gesellschaften bürgerlichen Rechts)
- Further PD rating methods: International central, regional and local authorities (states and municipalities), multinational corporate clients, banks, project financing as well as asset-based financing (aircraft financing, leasing), private clients, small- and medium-sized corporates
- LGD methods: LGD calculator for German and international real estate financing, bank LGD model, corporate LGD model, country LGD model, municipality LGD model, project financing LGD model, asset-based finance LGD model for aircraft financing.

The Advanced IRBA in the credit portfolio for the above-mentioned banks covers approx. 95 % of the credit exposure. The remaining 5 % of the credit exposure, which are treated with the standard approach in accordance with the Basle II rules, relate to various risks, e.g. counterparty risk positions with public sector borrowers or the non-strategic residual portfolio consisting of relatively small private customer real estate financing arrangements.

The entities of the former DEPFA Group which were acquired by the Hypo Real Estate Group in October 2007 are currently handled in accordance with the rules of the Basle II standard approach, so that, at Group level, the current Advanced IRBA cover is approx. 33 % with regard to the counterparty risk position value and approx. 56 % with regard to the risk-weighted counterparty risk position value. Implementation of the requirements from the Advanced IRBA approach – also for the DEPFA entities – has been discussed with the bank regulatory authorities; the corresponding internal project work is already at an advanced stage, and is expected to be completed during the first half of 2009. The aim is to achieve cover of approx. 97 % of credit exposure by extending the Advanced IRBA throughout the entire Hypo Real Estate Group. Subject to regulatory approval, the introduction of the Advanced IRBA approach in the DEPFA entities would mean that new and additional internal PD and LGD rating procedures for covering the Public Sector & Infrastructure Finance segments would also be included in the process of determining regulatory capital.

If the Advanced IRBA is not certified in the DEPFA entities, the Group would be exposed to the risk of derecognition of the current Advanced IRBA certification by the regulatory authorities, which would be associated with an increase in risk assets of approx. € 28 billion.

Credit portfolio

The Group-wide exposure (or Exposure at Default for the Advanced IRBA certified units of the former Hypo Real Estate Group before the acquisition of DEPFA BANK plc) of the Group's credit portfolio amounted to around € 403 billion as of 31 December 2008, and has declined slightly compared with December 2007 (€ 408 billion).

The concept "exposure" comprises the current draw-down, committed credit lines, derivatives (current market value plus regulatory add-on) and guarantees less hedging instruments for the credit risk.

The Basle-II-compliant term "Exposure at Default (EaD)" recognises the current draw-down as well as pro rata credit interest in relation to which a borrower may default before an exposure is defined as having defaulted (max. default of 90 days), as well as those credit commitments which a borrower will still be able to utilise in future despite a major deterioration in creditworthiness. In the case of derivatives, the EaD – as is the case with exposure – is defined as the sum of the current market value and the regulatory add-on, which constitutes a cushion for future potential increases of the market value.

Because by far the largest part of the overall portfolio of the Group is calculated as "Exposure", only the term "exposure" is used in the following apart from the Commercial Real Estate segment, which is completely recognised in the Advanced IRBA certified entities of the old Hypo Real Estate Group.

The development of the credit portfolio in the operating segments described in the following passage was characterised in financial year 2008 by the increasingly difficult situation on the refinancing market. Even before the escalation of the financial market crisis in September 2008, new business had been cut back and had been restricted to selected, Pfandbrief-eligible, business. New business was almost completely discontinued as a result of the complete collapse of the refinancing markets in the final quarter of 2008. Drawings of the Group from US liquidity facilities within the framework of security issue programmes in the Public Sector & Infrastructure Finance segment do not increase the exposure because these are recognised at the time of the commitment.

Overview of the total portfolio of the Group: € 403 billion

The credit portfolio is mainly broken down in the following segments

- Public Sector & Infrastructure Finance (PS & IF)
- Commercial Real Estate (CRE)
- Capital Markets & Asset Management (CM & AM).

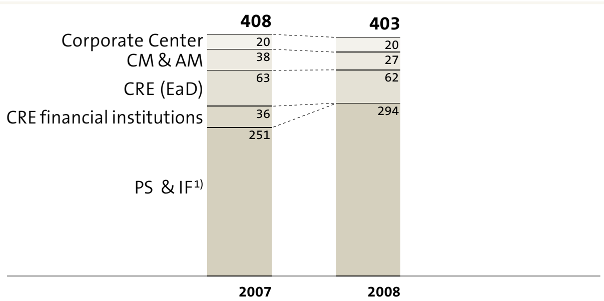
In addition to the operating segments, the Corporate Center comprises non-strategic positions totalling € 20.1 billion (previous year: € 20 billion). These positions are broken down as follows

- € 12.1 billion (December 2007: € 13.3 billion) positions which were taken on by the former DEPFA within the framework of positioning in interest risk. This figure includes € 5.8 billion for borrower's note loans of German Federal states as well as € 6.3 billion medium term notes (MTN) of financial institutions and public sector counterparties with an average rating of AA+. With the exception of one residual position, all interest risk positions which have been taken on have been hedged.
- € 2.7 billion mostly macro-hedged asset/liability management portfolio which is attributable to the period before the DEPFA/Aareal split
- € 4.9 billion exposure of structured products in the banking book and consolidated special-purpose vehicles, for which the calculated fair value is € 3.2 billion (see also the chapter: "Structured securities in the Corporate Center")
- € 0.4 billion real estate portfolio (December 2007: € 2 billion) which is fully backed by way of bank guarantees (KfW for € 0.4 billion) and which is attributable to the period before the DEPFA/Aareal split.

The total portfolio on an exposure basis is dominated by Public Sector & Infrastructure Finance (73 % of the total portfolio or € 294 billion). This includes the sub-portfolio of the financial institutions of Hypo Real Estate Bank (€ 25 billion) which was shown separately as a "CRE financial institution" in the previous year, as well as a sub-portfolio of financial institutions of € 5 billion, comprising aid for PS & IF business (e.g. interest and foreign exchange hedging for government bonds) and which previously had been reported in the CM & AM portfolio. This means that most of the financial institutions of the Group are shown in the PS & IF segment.

**Overall portfolio:
breakdown according to segments**

in € billion



1) 2008 including € 25 billion CRE financial institutions

Risk parameters The expected loss (EL), which is calculated from the annual probability of default (PD), the loss-given default (LGD) and the EaD, amounted to € 484 million as of 31 December 2008 using the parameters specified by Basle II. The expected loss for a period of one year is a key management parameter for the portfolio, and is calculated for the entire exposure with the exception of trading book positions and problem exposures for which an impairment has already been recognised. The parameter has only been available for the overall bank since 2008, and is broken down as follows over the operating segments:

Breakdown of the exposure by business segment

as of 31 December 2008	Expected loss in € million	Exposure in € billion
Public Sector & Infrastructure Finance[1]	66	288
Commercial Real Estate	365	62
Capital Markets & Asset Management[1]	4	20
Corporate Center[1]	49	19
Total	**484**	**389**

1) Only positions in the banking book

The unexpected loss of the exposure, the credit risk value-at-risk, is calculated using a credit risk portfolio model (for the functioning, please refer to the chapter "Credit risk portfolio model") for a period of one year and a confidence level of 99.95 % within the framework of the risk-bearing capacity analysis.

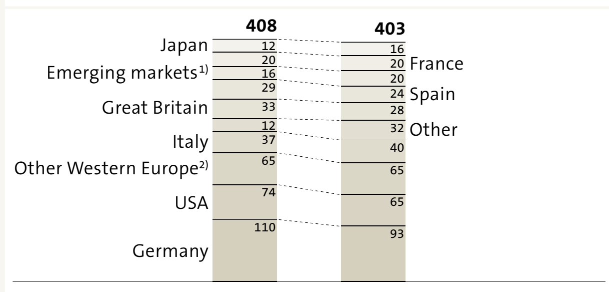
The economic credit risk capital amounted to € 5.9 billion as of 31 December 2008 (December 2007: € 4.0 billion), without taking account of diversification effects. The increase is mainly attributable to the extreme widening of credit spreads and the related volatility, thus also reflects the potential deterioration in the rating structure of borrowers in the overall portfolio.

The five largest counterparties, who account for 10 % of the overall exposure, account for 20 % of the calculated economic credit risk capital.

Country risk More than 60 % of the exposure is concentrated in Western Europe. Germany is one of the major countries in this respect. The designation "Rest of Western Europe" comprises Ireland with a share of more than 30 % (including the exposure attributable to repos with the ECB) and Greece with approx. 18 %; the remaining 52 % is spread over 12 additional countries. Compared with the previous year report, "Other" countries are now classified as "Other" (Canada has a share of 18 %; 82 % is spread over ten countries) and "Emerging markets" in accordance with the IMF definition (the main country in this respect is Poland with 30 %; the remainder is spread over 40 countries).

**Overall portfolio:
breakdown of country risk by regions**

in € billion



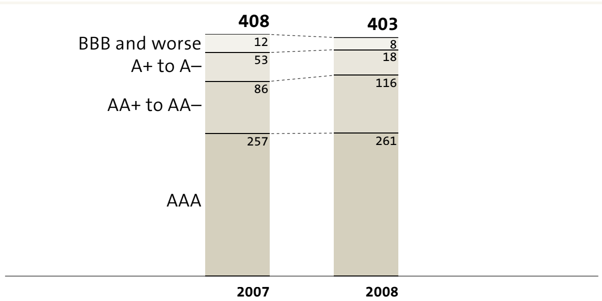
1) "Emerging markets" comprises 141 non-EU countries and 8 EU countries from the group "Emerging and developing countries" in line with the IMF definition in "World Economic Outlook November 2008".
2) The difference between the comparison figures for 2007 and the Risk Report 2007 is attributable to the changed country allocation ("Rest of Western Europe" now comprises all countries in Europe without Central and Eastern Europe as well as the countries which are detailed separately); the value as of December 2007: € 53 billion (13 %).

As of 31 December 2008, only 2 % (December 2007: 3 %) of the exposure was attributable to countries with a rating of BBB+ or worse, whereas by far the greater percentage (93 %; previous year 84 %) was attributable to countries with a rating of between AAA and AA–. This increase is attributable to an adjustment of the internal calibration of country ratings, which resulted in an upgrading of the exposure to Italy.

Depending on the results of the internal rating procedure, maximum limits in certain rating corridors are assigned to each individual country or group of countries; these limit the business activities of the Group. All country ratings and country limits are reviewed at least once every year by Group Risk Control. As a result of the current reorientation and restructuring of the Bank, the Group-wide country limits have been reduced to the level of the outstanding receivables since the end of October 2008 and until further notice.

Overall portfolio: country risk by internal ratings

in € billion



Public Sector & Infrastructure Finance: € 294 billion Throughout the whole of 2008, the PS & IF segment was characterised by an increasingly difficult climate for refinancing. Whereas overall portfolio quality remained stable in the first quarters, the dramatic deterioration of the financial crisis since the third quarter of 2008 – and in particular with the insolvency of Lehman Brothers Inc. in mid-September 2008 – has exacerbated the situation of some counterparty groups of the Group such as financial institutions and certain countries. The worldwide recession, which has entailed support measures of states designed to boost the economy and also stabilise the financial sector, will significantly increase the extent of government debt and have a negative impact on ratings. In addition, counterparties in infrastructure finance whose interest and capital service is closely linked to economic developments have been and will continue to be negatively affected.

Portfolio development and structure The exposure in the Public Sector & Infrastructure Finance segment amounted to € 294 billion as of 31 December 2008 compared with € 251 billion at the end of 2007. The following effects, totalling € 50 billion, have more than compensated (by € 7 billion) for the reduction in the exposure:

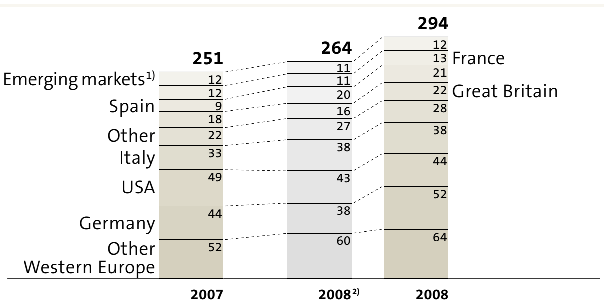
- € 25 billion regrouping of business with financial institutions in the Commercial Real Estate segment (bonds and hedges of commercial real estate business)
- € 5 billion regrouping of business with financial institutions in the Capital Markets & Asset Management segment (counterparty risks attributable to derivatives in the PS & IF business, such as interest and foreign exchange hedges as well as repos)
- € 17 billion in exposure as part of the process of procuring liquidity from a conservative valuation approach for our collateral for repos and repo-related transactions
- € 3 billion currency effects.

The two above-mentioned sub-portfolios have been regrouped as a result of the responsibility for credit risk management of the financial institutions which is based in the PS & IF segment throughout the Group.

Regional structure of the portfolio The portfolio is regionally diversified in more than 50 countries. The main exposure (more than 60% is in Western Europe, followed by the USA (15 %). Emerging markets (according to IMF definition 141 non-EU countries and 8 EU countries from the group "Emerging and developing countries" in line with the IMF definition in "World Economic Outlook November 2008") account for 4 % (largest exposure: Poland with € 4 billion, Hungary with € 2 billion, Russia with € 0.3 billion), and had previously been included in the "Other" category. The main country under the "Other" heading is now Japan (€ 12 billion), followed by Canada with € 7 billion. The main countries under the "Other Western Europe" heading are Ireland (€ 20 billion), Austria (€ 11 billion) and Greece (€ 10 billion).

Public Sector & Infrastructure Finance: regional distribution

in € billion



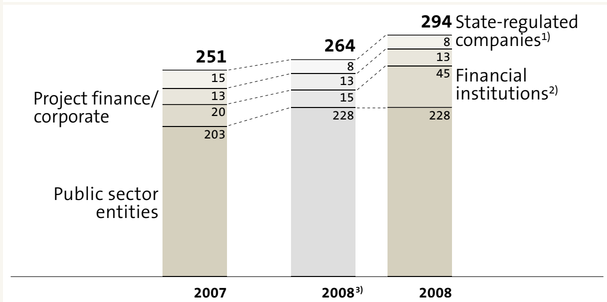
1) "Emerging markets" comprises 141 non-EU countries and 8 EU countries from the group "Emerging and developing countries" in line with the IMF definition in "World Economic Outlook November 2008".
2) Before regrouping of € 25 billion CRE financial institutions and € 5 billion from CM & AM

Counterparty structure of the portfolio The counterparty structure in the Public Sector & Infrastructure Finance portfolio is dominated by public sector borrowers with tax backing (77 %). This segment included public sector companies (32 %), countries (27 %) and municipalities (18 %). The category of public sector borrowers includes € 17 billion FFELP student loans (Federal Family Education Loan Program) within the structured securities (€ 36 billion nominal), which are described in greater detail in the following under "Special risk issues".

The counterparties of the US part of the portfolio are mainly public sector borrowers (65 %) and municipalities (16 %), 89 % of which have at least an internal A rating.

Public Sector & Infrastructure Finance: counterparty structure

in € billion

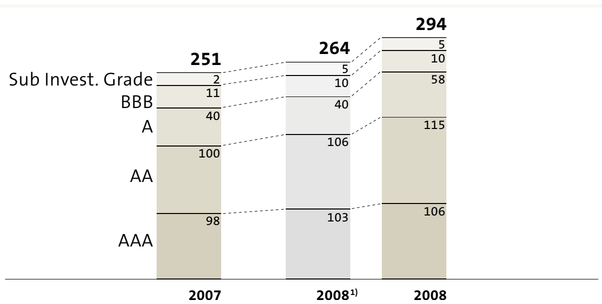


1) E.g. water utilities, power utilities, etc.
2) Including financial institutions with a state background or state guarantee
3) Before regrouping of € 25 billion CRE financial institutions and € 5 billion from CM & AM

Rating structure of the portfolio The high percentage of public sector borrowers is reflected in the rating, with more than 98 % investment grade. The exposure in the non-investment grade field comprises infrastructure financing as well as loans to the public sector in emerging markets.

Public Sector & Infrastructure Finance: internal rating structure

in € billion



[1] Before regrouping of € 25 billion CRE financial institutions and € 5 billion from CM & AM

Risk parameters In the Basle II implementation project, new and additional internal PD and LGD rating procedures which have not been certified have been developed for covering the Public Sector & Infrastructure Finance segment within the framework of the intended introduction of the advanced IRBA for the previous entities of DEPFA. These procedures enable an expected loss (EL) for this segment to be calculated for the first time.

Distribution of the exposure over internal expected loss classes

as of 31 December 2008	Exposure[1] in € billion	Exposure cumulative in %	Expected loss in € million
EL class 1 0 to < 1 basis point	260.45	90.42	5.39
EL class 2 1 to < 2 basis points	11.17	94.29	1.61
EL class 3 2 to < 3 basis points	3.57	95.54	0.80
EL class 4 3 to < 5 basis points	1.97	96.22	0.72
EL class 5 5 to < 10 basis points	2.47	97.08	1.70
EL class 6 10 to < 20 basis points	6.00	99.16	8.25
EL class 7 20 to < 35 basis points	0.24	99.24	0.54
EL class 8 35 to < 55 basis points	0.55	99.43	2.10
EL class 9 55 to < 90 basis points	0.75	99.69	4.92
EL class 10 90 to < 160 basis points	0.03	99.70	0.28
EL class 11 160 to < 250 basis points	0.28	99.80	6.37
EL class 12 250 to < 400 basis points	0.41	99.94	12.19
EL class 13 400 to < 650 basis points	—	99.94	—
EL class 14 650 to < 1,100 basis points	0.02	99.95	1.66
EL class 15 1,100 to < 1,800 basis points	0.04	99.96	4.81
EL class 16 1,800 to < 3,500 basis points	0.08	99.99	—
EL class 17 3,500 to < 6,000 basis points	0.03	100.00	1.,21
EL class 18 6,000 to < 10,000 basis points	—	100.00	0.52
Total	**288.06**	**—**	**66.07**

[1] Excluding trading book positions: hedges in the PS & IF segment

The total as well as the distribution demonstrate the high exposure concentration in the upper classes, which is attributable to the high percentage (94 %; December 2007: 93 %) of public sector borrowers.

Special risk issues **Credit-insured exposure through monoliners** As a result of the market presence, which has been significant until recently, particularly in the market for public US government bonds, the percentage of credit-insured exposure was 5 % (€ 14.4 billion) in relation to the overall portfolio (December 2007: € 20.1 billion or 8 %).

51 % of the insured securities (December 2007: 34 %) are public sector borrowers (such as US municipalities); 28 % (December 2007: 34 %) are state regulated companies and 21 % (December 2007: 17 %) are project financing arrangements.

As a result of the massive deterioration of the markets for structured financing in 2007 and 2008, credit insurance companies (so-called monoliners) were no longer able to maintain their rating. However, the impact on the credit-insured content of € 14.4 billion was minor, because the rating of the insured receivables used as the basis for the lending is consistently good.

The overview (see table below) shows that 73 % of the credit-insured exposure – disregarding the rating of the insurer – has an internal rating of at least “A”. Even if the credit insurance loses all value due to further downgrading of the monoliners, the non-investment grade content of the PS & IF portfolio would increase by € 0.5 billion from € 5 billion. The Hypo Real Estate Group is expecting further downgrading of the monoliners in 2009.

Credit insured exposure by internal rating

	Internal rating					
in € million	AAA	AA	A	BBB	BB and worse	**Total**
MBIA	746	679	1,810	537	118	**3,890**
FSA	346	822	1,474	964	—	**3,606**
AMBAC	511	135	946	850	345	**2,787**
FGIC	100	113	888	847	—	**1,949**
Assured	—	132	1,244	22	—	**1,398**
Synchora	13	43	415	165	58	**694**
CIFG	—	21	—	—	—	**21**
RADIAN	—	—	—	11	—	**11**
Total	**1,716**	**1,946**	**6,777**	**3,396**	**521**	**14,356**

State-supported and partially guaranteed structured products

We are disclosing further information for the following sub-portfolios in accordance with the recommendations of the Financial Stability Forums (FSF) and the Senior Supervisory Group (SSG) for "Leading Practice for Selected Exposures":

- Structured and partially guaranteed products, mainly in the PS & IF segment
- Structured products in the banking book as well as consolidated special-purpose entities in the Corporate Center (capital "Corporate Center")
- Special-purpose entities inside and outside the group of consolidated companies (capital "special-purpose entities").

The continuing crisis affecting the credit markets and the associated shortage of liquidity are having a particular impact on the valuation of structured securities. These also include securities comprising the special partially state-guaranteed financing products in the USA. The latter securities, which were part of the former business model of DEPFA, are now illiquid products which have been recognised almost exclusively in the Public Sector & Infrastructure Finance segment. Due to considerations of clarity, these holdings are reported here independently of the segment.

State-supported and partially guaranteed structured securities[1)]

as of 31 December 2008 in € billion	Nominal value	Fair value	Value of collateral	Explanation
State-guaranteed structured securities	**8.2**	**8.0**		
	8.2	8.0		CDOs/ABS guaranteed by European countries (mainly Spain), Spanish municipalities and the Federal State of Lower Austria as well as by the US Federal Home Administration. This includes a nominal amount of € 2.5 billion (€ 2.4 billion fair value) from the banking book of CM & AM)
State-supported structured securities	**3.2**	**3.3**		
	1.9	1.9		ABS for financing the state-supported US Social Housing Program
	1.3	1.4		ABS for financing privately constructed buildings and facilities of public interest for which interest payments and redemption payments are covered by public sector lease charges
Securities which evidence state guaranteed (97 %) US student loans	**16.7**	**13.5**		
	16.7	13.5		Securities which evidence student loans (FFELP Student loans), at least 97 % of which are backed by a US state guarantee (including € 1.7 billion bonds which were served out of drawn US liquidity facilities of the Group as well as € 0.6 billion of the CM & AM segment). 95 % are rated AAA; 5 % are rated AA –
Structured securities guaranteed by financial institutions	**7.5**	**7.5**		
	0.6	0.6	0.3	CDO guaranteed by European bank
	6.9	6.9	2.1	Collateral (CDOs) from TRS and other options with financial institutions with ratings of A to AA+; contractually agreed additional margin call if the value of the collateral declines
Total	**35.6**	**32.3**		

1) Excluding securities with additional credit insurance

Increased risks might result from structured securities without an explicit guarantee (€ 3.2 billion with state support). However, because the securitised loans finance investments in the "public interest", state support can be assumed in the event of payment difficulties.

Some of the securities (€ 1.7 billion) which evidence the student loans (97 % of which have a state backing) comprise securities which have been served on DEPFA (chapter "US liquidity facilities").

Financial institutions A very high percentage of the exposure to financial institutions of € 45 billion (including € 2 billion financial institutions with a state background or a state guarantee) is attributable to German banks (€ 16.4 billion); the second biggest percentage is attributable to Great Britain (€ 8.2 billion).

The liquidity and solvency of banks throughout the world became much more difficult in the course of 2008 – however, in particular since the insolvency of Lehman Brothers. In the opinion of the Hypo Real Estate Group, the exposure to financial institutions in Ireland (€ 1.3 billion), Spain (€ 4.3 billion) and Austrian banks (€ 1.1 billion) will in all probability experience further rating downgrades.

Iceland Iceland (exposure: € 0.8 billion; thereof an exposure of € 78 billion to financial institutions, for which an impairment has been recognised) has been affected to an extreme extent by the global financial crisis due to the size of the country's economy, which focuses on a small number of industry branches (mainly banks, construction and real estate). With bank receivables accounting for 900 % of the country's GDP, the government was not able to save the banking system from collapse. Banks were put under state control and, on 21 November 2001, the country received support from the IMF in the amount of US $ 2.1 billion for a period of two years in order to enable it to restore confidence and stability. Despite these measures, Iceland was downgraded by all rating agencies to BBB with a negative outlook. Although the situation has currently stabilised, it can be assumed that the economy in the country is facing a lengthy and serious recession.

Emerging markets In the year under review, economic growth in the emerging markets has slowed considerably as a result of the financial crisis. A lack of liquidity as well as higher financing costs will continue to have a negative impact on the emerging markets. In this context, countries with particularly high levels of debt will need support from the IMF and EU.

The exposure in emerging markets (in accordance with the IMF definition) amounted to € 14.5 billion at the total bank level (excluding CRE) as of 31 December 2008. Of this figure, PS & IF accounts for € 11.5 billion. In turn, 68 % of this figure has a minimum internal rating of A, 9 % are non-investment grade.

In the field of EU-emerging markets, the main exposures are attributable to Poland (A2 rating, € 4.2 billion), Hungary (A3 rating, € 2.4 billion) and the Czech Republic (A1 rating, € 0.7 billion). In the case of the non-EU emerging markets, the largest exposures are to be seen in Russia (rating BBB1, € 0.3 billion), Croatia (BBB3 rating, € 0.6 billion) and the Ukraine (B2 rating, € 0.3 billion).

US liquidity facilities The US liquidity facilities declined from approx. € 16.1 billion at the end of 2007 to € 11.3 billion as of 31 December 2008 due to expiry of the commitment. As a result of the rating downgrade in October 2008, most of the liquidity facilities were drawn particularly in the fourth quarter of 2008, and a considerable percentage of the variable rate demand obligations (VRDOs) for which DEPFA had committed US liquidity facilities was served on DEPFA. The VRDOs (€ 9.3 billion) are converted into securities which have a much higher interest coupon and which feature a repayment profile of five to ten years. There still remain undrawn facilities of around € 2 billion. The average rating of the securities of the drawn and as yet undrawn US liquidity facilities is AA3.

Whereas public issuers with comparatively good access to the market and liquidity reserves are more easily able to absorb these higher costs, or are able to restructure their liabilities, there might be payment problems in some areas – e.g. FFELP student loans (€ 1.7 billion).

Infrastructure finance The total exposure is € 18 billion, which is virtually unchanged compared with the previous year. It mainly comprises project financing and loans to companies, e.g. companies with a public mission. The financing arrangements focus on loans for financing major infrastructure projects in developed countries. The average rating of the portfolio is A3.

The borrowers operate facilities in education, health or the water industry, the use of which is generally not very dependent on the overall economic development. Some sectors, such as transport (in particular toll roads, ports and airports; together € 5.7 billion) as well as the financing of fixed assets (€ 1.1 billion; of which approx. € 0.5 billion aircraft financing) react generally more sensitively and more quickly to changes in the economic climate. Particular attention has been devoted to these areas in the risk analysis.

Commercial Real Estate: € 62 billion The market for commercial real estate business also deteriorated increasingly in 2008. This is reflected in new business and also in the rise in the number of non-performing loans.

Portfolio development and structure The EaD (Exposure at Default including the customer derivatives of € 1.2 billion) of the commercial real estate portfolio has declined by € 1 billion (approx. 1 %) compared with December 2007. The commitments amount to € 64 billion, and are thus 11 % lower than the corresponding previous year figure. Receivables amount to € 58 billion (December 2007: € 61 billion); the credit lines which have not yet been paid out accordingly amount to € 6 billion (December 2007: € 11 billion). Redemptions and repayments have more than compensated for the selective new business totalling approx. € 7.4 billion loan commitments, which also comprise a figure of € 1.7 billion for adjustments to conditions.

The sub-portfolio of the CRE financial institutions, which was regrouped to PS & IF in December 2008 as described above, was again not included, as was the case in the previous year, in the following individual portfolio breakdowns as a result of the different business.

Regional structure of the portfolio The Commercial Real Estate portfolio is spread regionally over 35 countries, with a clear focus in Western Europe (75 %).

As a result of active credit risk management in line with overall strategy, the EaD and in particular the loan commitments in markets which are particularly critical for real estate financing business were reduced further at the end of 2008 compared with December 2007:

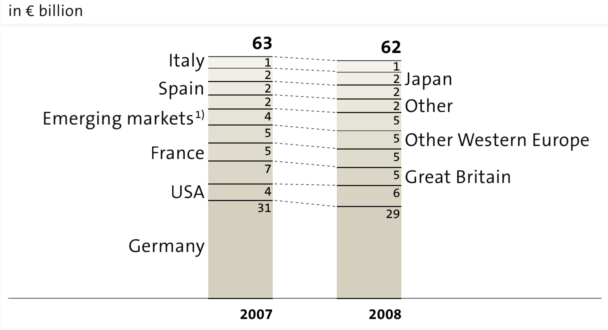
- Spain: EaD from € 2.2 billion to € 2.0 billion commitments from € 2.4 billion to € 2.0 billion
- Great Britain: EaD constant at € 5.0 billion commitments from € 7.6 billion to € 5.1 billion
- Sub-areas of the USA (developer financing) EaD constant at € 1.3 billion, commitments from € 2.4 billion to € 1.8 billion.

The increase in the total US EaD is attributable to the initial consolidation of Quadra Realty Trust, Inc.; 2 % of the increase is attributable to exchange rate changes, and a relatively small amount is attributable to drawings of existing credit lines.

Most of the category "Emerging markets" is attributable to Poland (€ 1.5 billion; December 2007: € 1.4 billion) and Russia (€ 0.7 billion; December 2007: € 0.6 billion). In the previous year, this category was included in "Other"; however, it has now been reclassified within the framework of a consistent Group-wide definition.

Commercial Real Estate: regional distribution

in € billion

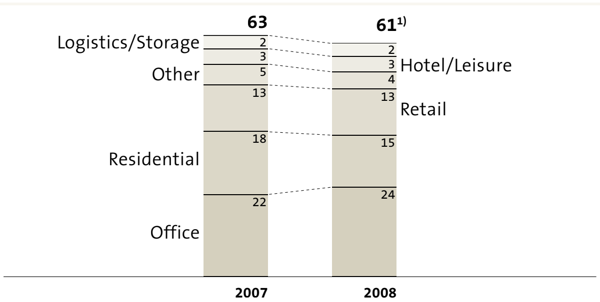


1) "Emerging markets" comprises 141 non-EU countries and 8 EU countries from the group "Emerging and developing countries" in line with the IMF definition in "World Economic Outlook November 2008".

Distribution of the portfolio by property types Residential properties (mostly portfolio transactions) account for approx. one quarter of the Commercial Real Estate portfolio. Commercial properties consist primarily of office buildings and retail properties. Other property types include for instance health and social institutions and commercial property with mixed use, whereby the latter account for approx. 35 % of this position.

Commercial Real Estate: distribution by property type

in € billion

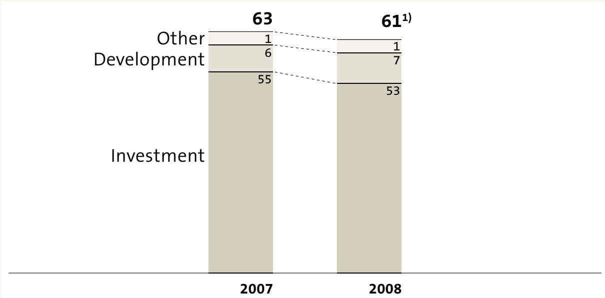


1) Breakdown excluding CRE derivatives approx. € 1 billion

Distribution of the portfolio by loan type The portfolio is dominated by investment financing (virtually stable at 87 %); higher-risk building financing arrangements account for 12 % of the EaD. Investment financing comprises the financing of real estate for which the cash flow is generated by means of rental. The increase in building financing is almost exclusively attributable to drawings from previously approved loan commitments.

Commercial Real Estate: breakdown by loan type

in € billion



1) Breakdown excluding CRE derivatives approx. € 1 billion

In 2008, new business, which overall was very weak and was primarily generated in the first half of the year, focused almost exclusively on investment financing for commercial and residential real estate in Germany.

Risk parameters The expected loss (EL) for the Commercial Real Estate portfolio, which is derived from the annual probability of default (PD) and the loss-given default (LGD) and the EaD, amounted to € 365 million as of 31 December 2008 based on the parameters specified under Basle II. The figure deteriorated in the year under review (December 2007: € 355 million), thus reflecting the negative developments on the real estate markets in the year 2008.

The risk parameters for new business underline the restrictive and conservative new business in the year 2008: Almost 50 % is attributable to the expected loss class 1 (equivalent to a one-year expected loss of max. 1 basis point), and more than 50% feature a loss-given default of less than 20 %.

Internal class distribution of EaD

as of 31 December 2008	EaD in € billion	EaD cumulative in %	Expected loss in € million
EL class 1 0 to < 1 basis points	11.87	19.04	0.30
EL class 2 1 to < 2 basis points	2.36	22.84	0.32
EL class 3 2 to < 3 basis points	3.13	27.85	0.74
EL class 4 3 to < 5 basis points	3.45	33.38	1.41
EL class 5 5 to < 10 basis points	6.80	44.29	5.01
EL class 6 10 to < 20 basis points	9.19	59.04	13.09
EL class 7 20 to < 35 basis points	8.11	72.05	21.42
EL class 8 35 to < 55 basis points	5.26	80.48	23.99
EL class 9 55 to < 90 basis points	3.14	85.51	22.81
EL class 10 90 to < 160 basis points	3.05	90.41	34.73
EL class 11 160 to < 250 basis points	1.58	92.95	32.34
EL class 12 250 to < 400 basis points	0.36	93.53	10.76
EL class 13 400 to < 650 basis points	0.25	93.93	6.39
EL class 14 650 to < 1,100 basis points	0.19	94.24	12.90
EL class 15 1,100 to < 1,800 basis points	0.19	94.53	8.55
EL class 16 1,800 to < 3,500 basis points	0.70	95.66	97.63
EL class 17 3,500 to < 6,000 basis points	1.70	98.39	63.97
EL class 18 6,000 to < 10,000 basis points	1.01	100.00	9.11
Total	**62.34**	**—**	**365**

The “loss-given default” (LGD) specifies the loss suffered by the Bank in the event of a default of a customer. This is an average of 22 % for the portfolio (December 2007: 18 %).

Further key parameters for credit risk management are “interest service coverage” (ISC), which describes the extent to which the interest is covered out of the cash flow of the financed property, as well as other standard contractually agreed covenants, such as the “loan-to-value” (LTV). The parameters are closely monitored and regularly reported to management.

Special risk issues The real estate markets in Great Britain, Spain and the USA were particularly affected by the negative market developments in the year under review. Because these negative trends were anticipated at an early stage, the corresponding financing portfolios had been significantly reduced since the end of 2006: Great Britain by 46 % to € 5.1 billion commitments as of the reporting date (€ 5.0 billion EaD), Spain by 29 % to € 2.0 billion commitments (€ 2.0 billion EaD) and financing of so-called condominiums (large residential installations with areas of common ownership) in the USA by 36 % to € 1.8 billion (€ 1.2 billion EaD). However, despite these efforts, the remaining residual portfolios in the above-mentioned countries feature significant risk concentrations in certain cases. Accordingly, major parts of these portfolios have been classified as exposed to an increased risk, and have been placed on the “watch list” or classified as problem loans (Great Britain 25 %, Spain 42 %, USA 19 %). Corresponding impairments have already been recognised in relation to numerous financing arrangements (see chapter “Watch list and problem loans”).

Developments represent a further key risk issue particularly in times of falling real estate demand. The volume of business in this segment amounted to € 7.3 billion EaD as of the reporting date; the business was conducted mainly in the USA (particularly with the above-mentioned condominiums) and in Germany (mainly with commercial real estate). The development portfolios also include a disproportionately high volume of loans which are classified as exposed to increased risk and which in certain cases have already been impaired.

It is virtually impossible to forecast the future development of the above-mentioned markets in 2009 in view of the massive macro-economic turmoil in the international financial and economic system; at present, it is not possible to estimate when the crisis will peak.

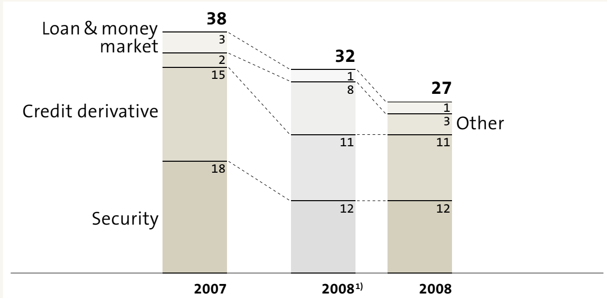
Capital Markets & Asset Management: € 27 billion Portfolio development and structure The portfolio comprises most of the trade activities of the Group which were continuously and significantly reduced further in 2008 in line with the decision of the Hypo Real Estate Group to completely discontinue trading activities apart from hedges. A considerable part of the portfolio is managed as a run-off portfolio; in other words, a position which is virtually closed in risk terms is held to maturity.

Taking account of the reclassification of € 5.1 billion exposure with financial institutions described in the PS & IF chapter (derivatives for PS & IF transactions, such as interest and currency hedges), the portfolio has declined by a further € 6 billion since 31 December 2007.

The portfolio comprises securities (41 %; December 2007: 47 %) and credit derivatives (41 %; previous year: 37%). Credit derivatives consist almost exclusively of CDS which were taken out to hedge the credit risk in the trading book. Following the above-mentioned reclassification, the "Other" category includes interest and currency swaps of around € 2 billion.

Capital Markets & Asset Management: breakdown according to product types

in € billion



1) Before relocation of € 5 billion of FI exposure from CM & AM to PS & IF

56 % (December 2007: 60 %) of the counterparties in the Capital Markets & Asset Management portfolio have ratings of AAA or AA; an unchanged percentage of 98 % is investment grade.

In addition to corporate (€ 7.2 billion) and financial institutions (€ 3.6 billion), most of the exposure is attributable to public sector counterparties (€ 13.3 billion).

A sub-portfolio of € 1.6 billion is additionally credit-insured by Monoliners. The internal rating profile of the credit-enhanced portfolio is sufficient. € 0.6 billion would be impacted in case of a further down-grade of the monoliner. Credit-insured exposure by internal rating:

Credit-insured exposure by internal rating

	Internal rating					
in € million	AAA	AA	A	BBB	BB and worse	**Total**
MBIA	—	—	47	112	—	**159**
FSA	—	53	6	36	19	**113**
AMBAC	—	30	17	6	10	**63**
FGIC	—	60	56	7	1	**124**
Synchora	—	—	–4	—	580	**576**
CIFG	—	72	—	—	—	**72**
RADIAN	—	2	–18	537	4	**526**
Total	**—**	**217**	**103**	**699**	**615**	**1,634**

Special risk issues Four arbitrage positions from the years 2005 to 2007 constitute a significant part of the trading position of the Group. In these positions, an open risk position is established in CMBS (commercial mortgage backed security) or CMBX (CMBS index) and, at the same time, a potential initial loss of almost 30% is hedged. This hedge was taken out by way of two Junior Super Senior Swaps (JSS) – Credit Default Swap (CDS) with the monoliners Synchora and Radian – and also by way of a Collateralised Junior CDS. The total structure is such that the hedge relates to tranches which have lower ratings than the purchased risk; this means that there is an additional cushion in the event of a default because the hedge has to be serviced before the Bank itself is required to settle any claims.

As a result of the widening of spreads for CMBX and CMBS from a maximum of 90 basis points at the beginning of 2008 to 725 basis points on occasion in November 2008, an overall structure which had previously been virtually covered became an open risk position on the CMBX index.

As a result of this development, the Group has reduced its CMBX holdings by way of opposite trades from the former figure of more than € 4.3 billion to € 3.5 billion.

The original aim of the hedge is to compensate for most of any potential losses in one position by way of profits in the other position, both of which result from changes in the market parameters. However, because the hedge has a different rating than the long position, this was no longer guaranteed due to the widening of the above-mentioned spreads, resulting in an open risk position. In addition, the hedging transactions with the monoliners as CDOs are not only sensitive with regard to spread changes; they are also sensitive with regard to the correlation of the underlying securities.

As of 31 December 2008, the long position of the Hypo Real Estate Group (€ 5.1 billion) was as follows
- € 3.3 billion CMBX, € 0.3 billion CDS on CMBS (all AA and AAA rated) in the trading book and
- € 1.5 billion CMBS bonds in the investment book.

The nominal value of the hedge as of 31 December 2008 (€ 1.6 billion) was as follows
- € 0.3 billion CSO Swaps and
- € 1.3 billion JSS.

Taking account of the hedge, the net risk position, i.e. the amount which would be relevant in the event of the complete default of all risks and hedges, amounts to € 3.5 billion.

Potential development of risks and management of such risks
Risk management of the four arbitrage positions focuses on market and credit risks, as described in the following:

Market risks:
- In stressed markets, the different rating quality of long positions and hedges can lead to unexpected changes: spreads of the lower rated index reacted more slowly than the spreads of the better rated index.
- The valuation of the long position is not directly influenced by the underlyings, whereas the valuation of the hedging instruments (CDO) with the monoliners depends on the performance of the underlyings.

Credit risks: at the point at which the JSS were taken out, both monoliners (Synchora and Radian) were rated AAA and AA respectively. In the case of Synchora, the rating deteriorated significantly in the course of the year. Because both monoliners act as insurers and because the value of the protection which the Bank acquired from the monoliners has increased significantly, it can no longer be assumed with absolute certainty that compensation would be provided in full in the event of a default.

In response, the Group created a market value adjustment of € 117 million as a result of counterparty risk in the third quarter; this figure increased to € 400 million by the end of 2008. It is possible that the creditworthiness may be downgraded further, which would result in further adjustments to the market price of the hedging derivatives. Hypo Real Estate Group is currently reducing the risks, as we expect that the spread environment will continue to be volatile in 2009.

In previous years, these positions were not explicitly mentioned because, as a result of the spread levels and market situation prevailing at that time, the position was deemed to be sufficiently hedged. In addition, there was no revaluation due to the monoliner for 2008, since these were rated AA during that period.

Corporate Center: € 20 billion As initially described in the chapter "Overview of the overall portfolio of the Group", the Corporate Center comprises non-strategic positions totalling € 20.1 billion. Some of the exposure of € 4.9 billion (nominal value: € 6.2 billion) is attributable to structured securities in the banking book and consolidated special-purpose entities for which we provide detailed information – in line with the recommendations of the Financial Stability Forum (FSF). Considerable impairments had to be recognised in 2008 for all securities detailed in the following:

Portfolio development and structure of the structured products The holdings of structured securities can be broken down into property-based "Real Estate Linked Investment" such as commercial mortgage backed securities (CMBS), residential mortgage-backed securities (RMBS) and "credit-linked investments" such as collateralised debt obligation (CDO, in the narrower sense of the term) and Collateralised Loan Obligation (CLO). All credit-linked investments are described as "CDO" in the following.

The current intrinsic fair value of these securities which securitise credit risks amounted to € 3.19 billion as of 31 December 2008 (€ 2.10 billion MBS and € 1.09 billion CDO).

The following additions to CDOs and US CMBS were reported in 2008:

- In the third quarter of 2008, not only legal ownership but also beneficial ownership of five CDOs with an AAA rating and a nominal volume of € 0.4 billion (one US and four EU CDOs) was transferred to the Group after the counterparty Lehman Brothers defaulted as the economic security giver. The underlying receivables of these investments are corporate loans.
- In addition, in the third quarter of 2008, a senior tranche for a nominal amount of € 0.4 billion of a special-purpose entity was acquired to prevent the liquidation of the entire structure. Details concerning the acquired securities are set out in the chapter "Real estate- linked investments". This transaction increased the holdings of US CMBS.

In addition, holdings were reduced in 2008 as a result of repayments of CMBS and RMBS and the closing of structures for US CDOs and European CDOs. However, the overall holdings increased as a result of the above-mentioned additions and the currency changes.

Structured securities

in € billion			31.12.2008 Nominal value	31.12.2008 Intrinsic fair value	31.12.2008 Decline in value against nominal	31.12.2007 Nominal value	31.12.2007 Intrinsic fair value
Real Estate Linked Investments	**CMBS**	**Total**	**2.51**	**1.55**	38 %	**2.37**	**2.25**
		Europe	1.76	1.07	39 %	1.91	1.82
		USA	0.75	0.48	36 %	0.46	0.43
	RMBS	Europe	**0.78**	**0.55**	29 %	**0.94**	**0.90**
Credit Linked Investments	**CDO**	**Total**	**2.76**	**0.96**	65 %	**2.54**	**1.86**
		Europe	1.25	0.71	43 %	1.07	0.89
		USA	1.51	0.25	83 %	1.47	0.97
	ABS (other)	**Total**	**0.15**	**0.13**	13 %	**0.15**	**0.14**

The intrinsic fair value of the CMBS and RMBS securities are measured on the basis of a recognised discounted cash flow model in line with the regulations of IAS 39. By way of contrast with the measurement of more simple CDO structures based on liquid reference assets using standard Finite Pool or Copula models, a separate valuation model is used for complex structures or illiquid underlying securities. Accordingly, the intrinsic value of the US and EU CDOs is measured using a separate CDO model which features a top-down distribution of expected losses and which was developed in conjunction with a reputable consultancy. The valuation of this portfolio mainly reflects the development of the underlying securities, which consist primarily of ABS, MBS or CDO tranches.

The following overview shows the influence of the structured securities on the income statement, taking account of the change in the model reserve for the above-mentioned valuation model.

Influence of the structured securities on the income statement

	2008				2007
in € million	Q1	Q2	Q3	Q4	Total
Income statement	−178	−145	−308	−1,139	−466

Most of the impairments are attributable to the credit-linked investments. Impairments of € 528 million had to be recognised in relation to the real-estate-linked investments in 2008.

Real-estate-linked investments in the Corporate Center The portfolio of US and European RMBS and CMBS investments had a total intrinsic fair value of € 2.10 billion at the end of 2008. By far the most significant factor behind the reduction in the market value is the increase in credit spreads. The underlying collateral for the investments feature property-related diversification as well as the following ratios (based on market values):

- Loan-to-value ratios: 56 % of US CMBS and 65 % of EU-CMBS have an LTV of less than 70 %.
- Debt service coverage ratio (DSCR) and interest service coverage ratio (ISCR): 97 % of US CMBS have a DSCR and 87 % of EU CMBS have an ISCR of more than 125 %.

The following charts show the rating distributions of the securities as of 31 December 2008 for European CMBS and RMBS as well as US CMBS on the basis of intrinsic fair values:

Rating distribution based on market values

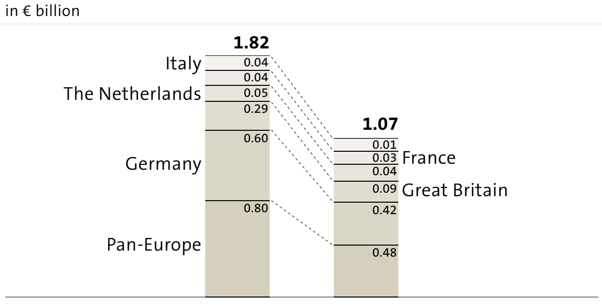
in € billion		AAA	AA	A	BBB	BB	B	CCC to C
CMBS	**Total**	**1.18**	**0.21**	**0.14**	**0.07**	**0.03**	**—**	**—**
	Europe	0.69	0.20	0.10	0.06	0.02	—	—
	USA	0.49	0.01	0.04	0.01	0.01	—	—
RMBS	Europe	**0.32**	**0.12**	**0.09**	**0.01**	**0.02**	**—**	**—**

Market values of the US CMBS include market values of interest rate hedges of the ELAN transaction. Impairments of € 78 million have been recognised for European RMBS, and impairments of € 450 million have been recognised for EU and US CMBS. Hypo Real Estate Group expects that the crisis on the real estate markets will deteriorate further and cannot preclude the possibility of further impairments in future in these market segments.

The following diagrams show the regional distribution of underlyings of CMBS and RMBS. The credit portfolios are concentrated on Western Europe; Pan-Europe refers to underlyings which, in turn, are distributed as a structured portfolio throughout Europe.

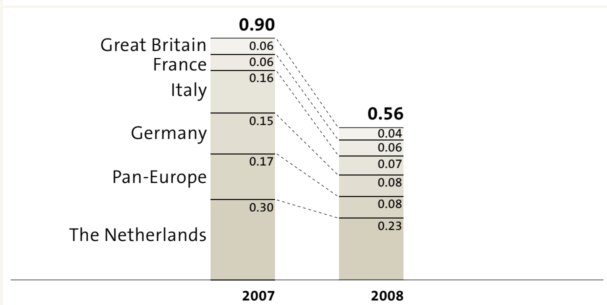
CMBS portfolio diversification Europe

in € billion



RMBS portfolio diversification Europe

in € billion



Credit-linked investments in Corporate Center The market value of the credit-linked investments is € 1.1 billion (including ABS other), and is broken down as follows:

Market values CDOs and CLOs

in € billion		Q2 2008 30.6.2008	Q3 2008 30.9.2008	Q4 2008 31.12.2008
Europe	CDO (i.e.S.)	0.375	0.289	0.197
	CLO & CSO	0.606	0.555	0.516
USA	CDO	0.604	0.478	0.252

The valuation of the portfolio of credit-linked investments primarily reflects the development of the underlying securities, which consist primarily of ABS, MBS or CDO tranches. The calculated intrinsic market values corresponded to approx. 35 % of the nominal value as of the reference date.

It has been necessary for impairments to be recognised as a result of the credit spreads which widened further at the end of 2008 and also the deterioration in quality in the security pools. So far, cumulative impairments of € 1,242 have so far been recognised in 2008 (including the reversal of a model reserve of € 70 million).

US CDOs The value of the US CDOs was € 0.25 billion as of 31 December 2008 (17 % of the nominal value); in the final quarter of 2008, this figure declined appreciably as a result of credit spreads which widened further as well as a deterioration in the security pool. The market value (model value) consists primarily of positions which, on the basis of our analysis, are still of value and which have also been awarded good ratings by the rating agencies. The rating distribution on the basis of the market values of the securities is set out in the table below.

European CDOs The market value of the European CDOs (EU CDOs) amounted to € 0.71 billion (57 % of the nominal value) as of the reference date, including the new EU CDOs as a result of the Lehman insolvency in the third quarter. Compared with the previous quarter, the market value has declined further as a result of credit spreads which have widened further and also as a result of a deterioration in quality in the security pool. The following table sets out the rating distribution of the securities on the basis of the market values.

Rating distribution on the basis of the market values

in %	AAA	AA	A	BBB	BB	B	CCC	CC	C
US CDOs Market value € 252 million	34	3	40	3	3	6	2	5	4
European CDOs Market value € 713 million	67	22	1	6	3	< 1	< 1	< 1	— [1]

[1] respectively unrated

Despite a deterioration in the economic climate, the performance of the EU CDOs has seen a more moderate fall compared with the performance of US CDOs. However, the deteriorating economic situation overall has also been taken into consideration with regard to the EU CDOs, and further impairments were created as of the end of 2008. Should the economic crisis continue to worsen, further impairments should not be ruled out.

Other credit-linked investments The current market value of the category "Other ABS" amounted to € 0.13 billion at the end of 2008. 90 % consists of a securitised tranche of an asset financing trust (securitisation of leasing receivables with the asset as security). This investment is additionally backed by a Canadian province guarantee.

Special-purpose entities in the Hypo Real Estate Group

Special-purpose entities are generally used for isolating assets of operating companies so that they are not affected by insolvency and also, if necessary, to enable these assets, which are frequently used as collateral, to be disposed of more easily. Hypo Real Estate Group uses special-purpose entities for various purposes as part of its business operations, whereby the reduction of risk is clearly at the forefront.

Special-purpose entities which have been established or sponsored by Hypo Real Estate Group or with which contractual relations have been established may have to be consolidated under certain circumstances. Special-purpose entities which are substantially controlled by Hypo Real Estate Group, although they are not controlled in formal legal terms (IAS 27 in conjunction with SIC 12) are consolidated in accordance with IFRS. This is particularly the case if most of the opportunities and risks of the special-purpose entity are attributed to Hypo Real Estate Group. When a special-purpose entity is established, or if there are any changes in the financial circumstances of the special-purpose entity, or if there are any changes in the business relations between the Group and the special-purpose entity, the possibility of consolidation in accordance with IFRS is investigated.

The following comments consider in greater detail the individual objectives of the Hypo Real Estate Group in connection with special-purpose entities.

Refinancing of the Group In this context, special-purpose entities are used in order to support the refinancing of the Group and thus reduce the liquidity risk. A wide variety of forms are used. In addition to traditional refinancing vehicles which collect funds on the capital market and pass these funds on to Hypo Real Estate Group in the form of loans, special-purpose entities can also be used for securitising certain assets in such a way that they can be used for security lending purposes.

Outplacement of credit risks A further very important objective for using special-purpose entities is the outplacement of own lending risks. Most of these outplacements took place during or before 2007, so that they are only recognised in accordance with Basle I and in general are not recognised in accordance with the Solvency Ordinance (SolvV) or Basle II. The risks are generally transferred from Hypo Real Estate Group by means of a financial guarantee to the special-purpose entity, which in turn passes this guarantee on to third parties. This financial guarantee is normally passed on in two stages. The special-purpose entity issues credit-linked notes (CLN) for the so-called first loss (primary risks – junior tranche with maximum loss risk) and the downstream risks, known as second losses, whereas third-party financial guarantees are used for the remaining risks (senior tranches). The proceeds from the CLN are invested in prime securities, which in turn are used as collateral for Hypo Real Estate Group. The special-purpose entities are consolidated if it has been possible for only a small percentage of their CLNs to be placed in the market.

Capital-backed investments In the past, investments in capital-backed securitisations have been used for optimising the regulatory capital requirements. For this purpose, the special-purpose entities issued capital-backed bonds, which in turn were completely acquired by Hypo Real Estate Group. In the case of capital-backed bonds, a guarantee is provided for repayment of the invested nominal amount at maturity. These companies are fully consolidated. Other use of special-purpose entities

Other use of special-purpose entities Special-purpose entities are also used for providing protection for specific trade-relevant risks by way of onward placement on the capital markets. They are generally not consolidated.

In addition, Hypo Real Estate Group has established a special-purpose entity (Morrigan TRR Funding LLC, Wilmington) in order to provide other capital market participants with refinancing possibilities within the framework of secured lending. In this respect, the Hypo Real Estate Group acts merely as an intermediary, and accordingly does not have to consolidate the company in accordance with IFRS (see chapter Capital Market & Asset Management).

Special-purpose entities within the framework of investments in ABS structures As a result of previous investments of Hypo Real Estate Group in ABS structures, some selected investments have to consolidate the corresponding special-purpose entity. These are primarily investments in first loss tranches, which have been completely written off, so that Hypo Real Estate Group is not exposed to any risk in this respect. In addition, there is also an investment in a special-purpose entity based on a pool of AAA rated US commercial mortgage backed securities (CMBS).

Assets of consolidated special-purpose entities The following table summarises the special-purpose entities included in the consolidated financial statements of Hypo Real Estate Group in accordance with IFRS as of 31 December 2008. The assets used as the basis of consolidation are mainly classified as loans and receivables (LaR).

Consolidated special-purpose entities

Category	Nominal amount SPE in € million
Refinancing of the Group	8,171
Outplacement of credit risks	609
Capital-backed investments	1,473
Investments in ABS structures	3,279
Total	**13,292**

The consolidation of the special-purpose entities has in particular resulted in a balance sheet extension of approx. € 3.2 billion attributable to securitisation special-purpose entities within the framework of investments in ABS structures in which Hypo Real Estate Group holds first loss tranches which have already been completely written off. From the point of view of risk, the volume at risk of € 2.5 billion is thus reduced accordingly.

Assets of non-consolidated special-purpose entities The following table sets out the nominal risk positions attributable to non-consolidated special-purpose entities. In the case of the Morrigan structure, there are no direct risks for the Bank attributable to the underlying assets. Hypo Real Estate Group is merely a risk intermediary and accordingly only bears the risks of a potential default of the banks which accept the original risk. All of these banks have a good rating.

Non-consolidated special-purpose entities

Category	Nominal amount SPE in € million
Morrigan	1,010
Other	118
Total	**1,128**

Watch list and non-performing loans: € 6.2 billion

Early warning system The early warning system of, Hypo Real Estate Group guarantees that loans or borrowers whose rating or securities might deteriorate are promptly identified and closely monitored or placed on the watch list.

In the event of any defaults and if there are payment arrears of more than 90 days, the loans are transferred to non-performing loan processing. This comprises impairment tests in line with the corresponding accounting principles of the Group. Non-performing loans are classified under the categories “restructuring loans” and “workout”. The definition criteria are described in the following.

Restructuring loans are generally loans extended to counterparties which meet at least one default criterion in accordance with Basle II (e.g. a major liability of the debtor is more than 90 days overdue as a result of arrears due to the banking group, moratorium of interest payments, costs and fees, waiver in relation to receivables or interest payments, the debtor has applied for insolvency) and for which no individual allowance has yet been recognised.

If no further default criterion is met at any HRE Group entity 90 days after the borrower has remedied the default, the default can be cancelled and it is no longer necessary for the loan to be classified as a non-performing loan.

Workout comprises all loans exposed to acute default risks for which it was necessary to create an individual allowance.

The following reporting comprises portfolios which are included in the Public Sector & Infrastructure Finance (PS & IF) and the Commercial Real Estate (CRE) segment. Outside these two segments, the HRE Group mainly has non-performing structured securities in the Corporate Center segment; these are reported extensively in the chapter “Structured securities in the Corporate Center”.

Development of the watch list and non-performing loans The following table sets out the non-performing loans and watch list loans as of the end of the year:

Watch list and non-performing loans

in € million	31.12.2008 PS & IF	31.12.2008 CRE	31.12.2008 Total	31.12.2007 PS & IF	31.12.2007 CRE	31.12.2007 Total
Workout loans	259	3,723	**3,982**	7	1,148	**1,155**
Restructuring loans	502	495	**997**	2	573	**575**
Non-performing loans	**761**	**4,218**	**4,979**	**9**	**1,721**	**1,730**
Watch list loans	**453**	**785**	**1,238**	**348**	**512**	**860**
Total	**1,214**	**5,003**	**6,217**	**357**	**2,233**	**2,590**

The increase of € 2.8 billion to € 5.0 billion in non-performing loans and watch list loans in CRE mainly reflects a considerable deterioration of the real estate markets and the macroeconomic climate. Some countries, for instance Great Britain, the USA and Spain, have been affected even more seriously.

In the PS & IF segment, the increase in exposure is mainly attributable to liquidity and value problems of two structuring vehicles as well as banks in Iceland, Lehman Brothers and infrastructure projects in emerging markets.

Impairments and provisions **Individual allowances** All loans which are not allocated to the trading book are regularly tested to determine whether they are impaired. A test is performed to determine whether there is an objective indication for an impairment, and a calculation is carried out to determine the extent of the sustainably recoverable amount or the impairment. The following are major objective indications of an impairment:

- Considerable financial difficulties of the borrower
- Overdue contractual interest payments or redemption payments or other breaches of contract
- Increased probability that the borrower will become insolvent or will undergo another restructuring process
- Renegotiations as a result of financial difficulties.

In the course of individual processing of significant loans, the extent of the sustainably recoverable amount is determined by discounting the expected cash flows. The interest rate specified at the point at which the loan was extended normally applies for discounting purposes. The current market rate is used as the discounting factor only in the case of certain securities. These are exclusively financial assets which are classified as available for sale for accounting purposes (see note 6 in the notes to the consolidated financial statements). The impairment is calculated by deducting this amount from the amortised costs of purchase. The following factors in particular are taken into consideration for determining the actual amount of the impairment:

- The total exposure of the customer to Hypo Real Estate Group
- The amount and timing of the expected interest rate payment and redemption payment
- The recoverable amount of the security and the probability of successful recovery
- The probable amount of costs for collecting outstanding amounts
- If available, the market price of the asset.

Portfolio-based allowances For non-significant loans, it is also possible to calculate an impairment in the form of a portfolio-based allowance. The portfolio-based allowances take account of reductions in value which have occurred but which have not yet been identified. The parameters which are used for calculating the portfolio-based allowances are regularly reviewed and adjusted where appropriate. The allowances are determined in particular by taking account of the following factors:

- Historical loss rates in portfolios with similar credit risk characteristics
- An assessment as to whether the current economic conditions and credit conditions have improved or deteriorated compared with the past
- The estimated period between the point at which an impairment occurs and the point at which it is identified
- Status of the current economic cycle.

Impairment process The impairment of all credit risks is approved by the CROs of the corresponding subsidiaries in the Risk Committee (as of 2009: Risk Provision Committee).

Such approval is preceded by a multi-stage process which applies to all subsidiaries throughout the Group. The following instruments are used for identifying, analysing and measuring the credit risk:

- Annual review with regular check of the rating (PD, LGD and expected loss) and the securities
- Where appropriate, covenant monitoring with a check to determine whether the specified covenants are being met
- System monitoring on the basis of overdue items (interest, redemption payments and costs)
- Early warning system for placing critical exposures on the watch list.

All non-performing loans are examined at least per the balance sheet date in order to determine whether it is necessary to adjust the provisions for losses on loans and advances, and are approved by the corresponding officer.

Overview of the development of provisions for losses on loans and advances and provisions

Provisions for losses on loans and advances for financial assets in € million	Individual allowances for receivables	Portfolio-based receivables [1]	**Total**
Balance at 1.1.2007	**728**	**212**	**940**
Changes recognised in the income statement	9	−179	−170
Changes recognised directly in equity	−65	110	45
Balance at 31.12.2007	**672**	**143**	**815**
Balance at 1.1.2008	**672**	**143**	**815**
Changes recognised in the income statement	1,117	501	1,618
Changes recognised directly in equity	−161	−15	−176
Balance at 31.12.2008	**1,628**	**629**	**2,257**

[1] Excluding model reserve for CDOs

Inflows relating to receivables which had previously been written off amounted to € 4 million (previous year: € 5 million).

The increase in individual allowances reflects the general development on the real estate markets as well as the broad global economic downturn.

The portfolio-based allowances increased in 2008, on the one hand as a result of the above-mentioned difficult general situation; on the other hand, portfolio-based allowances were also created in 2008 for the first time for credit risks outside the Commercial Real Estate segment.

Impairments had been recognised in relation to 29.3 % of non-performing loans in the Public Sector & Infrastructure Finance segment as of 31 December 2008.

Impairments had been created for 33.5 % of non-performing loans in the CRE as of 31 December 2008.

Provisions for contingent liabilities and other obligations
The provisions for contingent liabilities and other obligations mainly comprise provisions for guarantee risks, letters of credit, irrevocable loan commitments and litigation risks in lending, and declined slightly (€ 11 million).

With regard to the analysis of the impairments, it has to be borne in mind that provisions for losses on loans and advances do not include impairments in relation to financial assets and trading book positions. Accordingly, defaults of credit institutions are mainly recognised in net trading income or in the net income from financial investments. In 2008, a cost of € 150 million from derivative positions was recognised in net trading income due to the default of Lehman Brothers. Additional costs of € 12 million were recognised for securities of Icelandic banks held in the trading book. The effects of permanent impairments relating to securities held in financial assets are described in the following.

Direct impairments and portfolio-based allowances for financial assets

Provisions for losses on loans and advances for financial assets

in € million	31.12.2008	31.12.2007
Direct impairments	1,425	178
Portfolio-based allowance	24	—
Total	**1,449**	**178**

Most of this risk provisioning of € 1,361 million (previous year: € 178 million) relates to our structured security portfolio (as mentioned above), which is reported separately in the chapter "Structured securities in the Corporate Center". Impairments of € 64 million also have to be recognised in relation to securities issued by credit institutions. Of this figure Icelandic banks account for € 38 million. A global allowance in relation to these holdings was created in the third quarter of 2008 with the initial reclassification of securities from the category "available for sale" to the category "loans and receivables".

Market Risk

Definition

Market risk is defined as the risk of a loss of value resulting from the fluctuation of the market prices of financial instruments. Hypo Real Estate Group transactions are mainly subject to the following risk types:
- Credit spread risk
- General interest rate risk
- Exchange rate risk.

Hypo Real Estate Group controls and monitors market risks by means of a three-way approach: risk management in the front office, risk measurement and monitoring of limits by Risk Control as well as escalation processes across all decision-making bodies right through to the Management Board. The market risk is monitored by a combination of value-at-risk limits for the trading book and the banking book positions by way of monitoring sensitivities as well as the economic capital.

The Management Board, supported by the Risk Management Committee and Group ALCO, defined the market risk limits at Group level as well as broken down across the business segments and subsidiaries. The further distribution of the limits over individual portfolios is the responsibility of the Management Board members responsible for specific segments.

Risk measuring procedures

Risk control uses a variance-covariance approach to calculate the market risk value-at-risk (VaR) on a daily basis both at overall and sub-portfolio level. All trading and banking book positions are taken into consideration. The correlation and volatilities used are based on historical statistics of the previous 250 trading days, which are included in the calculation on an equally weighted basis. The VaR relates to a ten-day holding period and a one-sided 99 % confidence interval. It is assumed that the market risk categories are uncorrelated for the aggregation of the individual market risk components such as interest, FX and credit spread VaR to form an overall VaR which is the basis for the limits. This assumption is regularly reviewed and validated explicitly for significant portfolios of the Group. The VaR is calculated on a consolidated basis at Group level and also for the individual subsidiary banks, operating segments and trading desks.

The VaR assessment is complemented by further instruments such as sensitivity analyses on a daily basis as well as stress testing and backtesting.

In calculating the economic capital, the VaR is scaled for a one-year period and also at a higher confidence level (from 99 % to 99.95 %). The fact that the longer period is taken into consideration recognises a decreasing management factor which reflects the possibility of management exerting influence, e.g. by way of reducing risk positions in the event of an unfavourable market development. The credit spread risks of the banking book positions are calculated in this regard by way of a credit portfolio model and are shown as a credit risk.

Market risk reports

Group Risk Control prepares detail reports at Group level for various recipients:

- The market and liquidity risk report is addressed to the Management Board of the Holding. It shows the draw-down of VaR limits at the Group level and also at various levels of detail.
- Sensitivity reports include analyses for the main risk factors in different levels of detail. They are made available to risk management as well as the members of the Management Board of Hypo Real Estate Holding AG.

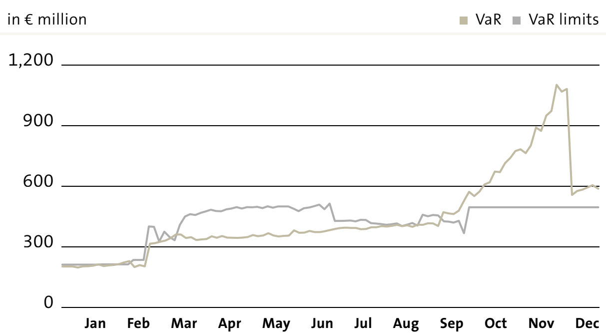
Limits

If a limit is exceeded, the risk generally has to be reduced by the responsible trader. However, in exceptional cases, the CFO and the CRO may decide to apply a temporary limit increase, to reallocate a limit or to temporarily approve the limit violation; this has to be ratified in the next meeting of the Risk Management Committees and Group ALCO.

The total VaR limit of the Group was exceeded as a result of the credit spread volatilities which increased sharply, particularly in the third and fourth quarters of 2008 (see section on the credit spread risk).

The IT aspects of implementing the reclassification option in the accounting standard IAS 39.50 were finalised at the beginning of December. Hypo Real Estate Group has decided to reclassify available-for-sale holdings into the loans and receivables category. The figure shown for the credit spread risk and the entire market risk VaR has declined appreciably because, as a result of the reclassification, the credit spread risks of the positions are now ascribed to the traditional credit risk. The market risk VaR is stated as € 592 million as of 31 December 2008, and is still higher than the limit of € 500 million which was applicable at the end of the year. The mechanism whereby the market risk limit was automatically consumed by a negative result for the year in the trading books, which was applicable until 1 October 2008, has been discontinued as a result of a resolution adopted by the Management Board. At the same time, the VaR limit of € 550 million which had been applicable since 19 March 2008 was reduced by € 50 million. Development of the market risk VaR (10-day, 99 %) and the market risk limit in 2008.

Market risk VaR (10-day, 99 %) and market risk limit of Hypo Real Estate Group in 2008



The limit was still exceeded at the end of the year as a result of the continuing market turmoil following the collapse of the investment bank Lehman Brothers and the related limited possibilities of reducing risk by means of selling security positions or taking on hedges in order to cover the credit spread risks.

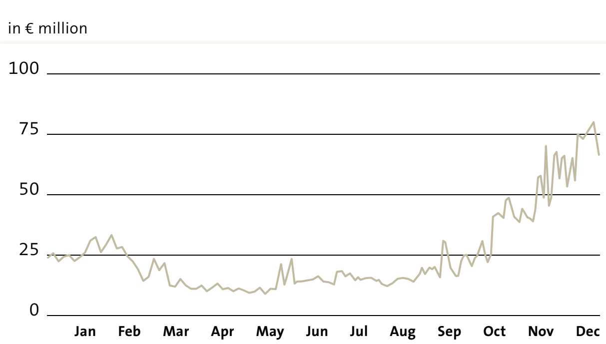
Besides the general market situation, a further hindrance is that the current uncertainty regarding the Group's future means that it does not always have unrestricted access to the market for hedge products (in particular, hedged derivatives). This situation, which is unprecedented for the Group, has to be considered in future deliberations regarding the management of market risks. In particular, structured securities have only been hedged to a limited extent.

Development of the market risk types

General interest rate risk The total general interest rate risk of the Group, which comprises all trading and banking books and thus the entire asset-liability management (excluding shareholders' equity books) amounted to approx. € 66 million at the end of 2008 (compared with € 19 million at the end of 2007). On average, the interest rate risk of approx. € 23.3 million for 2008 (max. € 80.1 million; min. € 8.1 million) is still at a low level (average VaR for 2007: € 56 million; max. € 106 million; min. € 14 million). Non-linear interest risks are insignificant. The sudden increase in the fourth quarter is not primarily attributable to growth in positions; instead, it is mainly market-driven. This reflects in particular the volatilities of interest rates which increased very strongly as a result of the financial market crisis (by more than 100 % for certain maturities). In addition, additional interest rate risks were generated as a result of the extremely widened credit spreads by way of discounting effects. The latter effect was observed with regard to the banking book positions and is only relevant if the default of the asset is taken into account as implied by the spread.

On the other hand, the interest rate risk of the trading books was further considerably reduced in 2008, and at the end of 2008 was at an all-time low with a VaR of less than € 10 million, despite the fact that interest rate volatilities more than doubled on occasion in the fourth quarter.

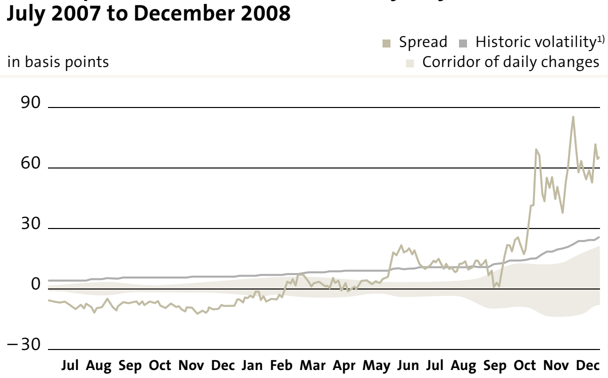
Interest rate risk (10-day, 99 %) of Hypo Real Estate Group in 2008



Credit spread risk The credit spread risk, also known as the specific interest rate risk, reflects the potential change in the present value of securities and derivatives caused by changes in credit spreads. Risk measuring systems for determining credit spread risks exist for all relevant positions of the Group in the trading book as well as in the banking book. Most of the specific interest rate risk is attributable to assets eligible as cover funds (Pfandbriefe, Lettres de Gage and ACS). Overall, it is part of Group strategy to also further reduce the credit spread sensitivity of the trading books.

The VaR for the credit spread risk has increased appreciably, because the credit spreads have risen very strongly mainly in the third and fourth quarters of 2008 following the collapse of the investment bank Lehman Brothers; this has also meant that the credit spread volatilities used for risk measurement have also increased very strongly. The following diagram shows the development of the credit spread for Italy (10-year security spread).

Credit spread of Italian bonds, maturity 10 years July 2007 to December 2008



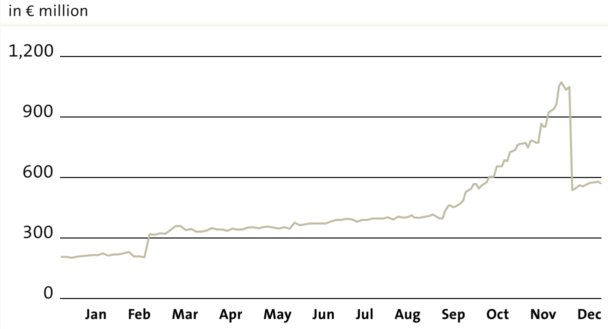
[1)] 99 %, 10-days holding period

This extreme credit spread widening, which affected all market segments, meant that the credit spread VaR of the trading books also increased despite the reduction of trading book positions; it amounted to approx. € 155 million at the end of 2008.

The security holdings of the cover funds constitute by far the majority of the Group's positions which are sensitive to credit spreads – as a result of the business model of Hypo Real Estate Group. Accordingly, the credit spread sensitivity of the overall portfolio (including the reclassified security holdings) amounted to € 195 million at the end of the year, compared with a simultaneous increase of one basis point in all credit spreads; of this figure, the trading books accounted only for € 2.7 million.

Overall the credit spread VaR increased from € 201 million at the beginning of 2008 to € 578 million at 31 December 2008. The decline in December 2008 is attributable to the reclassification of security holdings detailed above and the related recognition of the reclassified holdings as credit risk.

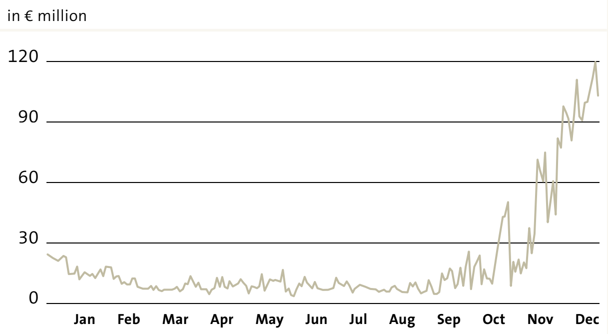
Credit spread VaR (10-day, 99 %) of Hypo Real Estate Group in 2008



The currently high credit spread level also has a negative impact on the valuation of the security holdings of the Group. This is applicable particularly for the securities in the Public Sector & Infrastructure Finance segment, some of which have very long maturities.

Foreign currency risk As a result of the present-value assessment of foreign currency, the foreign currency risk positions of the Group have also increased appreciably as a result of the widening of credit spreads. In addition, the historical volatilities of foreign currency rates used as the basis of the VaR measurement also increased as a result of the higher fluctuations of exchange rates in the fourth quarter. For instance, the US $ volatility almost doubled in the fourth quarter alone. These two effects are the main drivers for the increase in the foreign currency VaR in the fourth quarter. The average VaR is € 18.4 million for 2008 (max. € 119.1 million, min. € 2.3 million) compared with an average € 7.2 million in 2007 (max. € 13.3 million; min. € 3.3 million).

Foreign currency VaR (10-day, 99 %) of Hypo Real Estate Group in 2008



Hypo Real Estate Group is only exposed to a minor extent to equity price, commodity and inflation risks, and these risks are essentially hedged. Financial derivatives are used mainly for hedging purposes.

Backtesting and stress testing

The quality of the risk measuring methods which are used is constantly monitored and optimised where appropriate by way of the daily comparison of VaR values and actual changes in present values. As a result of the increased volatility of the market risk factors, mainly in the fourth quarter, the number of cases in which the market value fluctuation was greater than the calculated VaR increased in the individual sub-portfolios. For the quantitative assessment of the risk model, Hypo Real Estate Group has used the traffic signal system of the Basle Capital Accord of 1996. In this process, the statistical (negative) outliers determined as part of the backtesting process are counted within a period of 250 trading days. Overall, eight outliers were observed for the trading books; these were attributable to the extreme market movements of the credit spreads. The risk model of the Group is accordingly in the “yellow zone”, even in conjunction with the very volatile market conditions which prevailed last year. This mainly affected the four CMBS arbitrage positions which are described in greater detail in Capital Markets & Asset Management. Because of the market problem which became even more serious in the final quarter of 2008, it was particularly difficult to determine the daily changes in the present value of these holdings.

Whereas the VaR measurement simulates the market risk under “normal” market conditions, and is not to be understood as a standard for a potential maximum loss, stress scenarios show the market risk under extreme and stress conditions. In Hypo Real Estate Group, uniform stress scenarios throughout the Group are calculated on a monthly basis for all key risk drivers (credit spreads, interest rates, foreign currency rates) including all trading and banking books. Hypo Real Estate Group focuses on the stress scenarios recommended by the Bundesbank, and complements these by way of Group-specific scenarios, which it constantly extends and enhances. A simulated parallel shift of 200 BP in the interest rate curve would result in a change of approx. € 319 million in the market value for all trading and banking books of the Group. The comparison figure at the end of 2007 was approx. € 105 million. The Management Board and the corresponding committees are regularly informed of the results of the scenario analyses.

As part of the process of restructuring Hypo Real Estate Group, the market risks of the trading books are to be further reduced. The focus in this respect is mainly on the remaining credit spread sensitive positions of the arbitrage portfolios. The speed with which this reduction can take place very much depends on the further development of the capital markets.

In the first quarter of 2009, the credit spreads remained at the very high level seen at the end of 2008 or, in certain cases, have even increased further compared with the end of 2008.

After the recapitalisation process has been completed, the risk cover funds considered necessary and the related limits in economic capital will be redefined – based on the new business model of the Group and the reduced risk propensity set out in the new business model of the Group. In addition, we will implement triggers for credit spread sensitivities parallel to the VaR limit concept for all positions of the Group.

Liquidity Risk

Definition

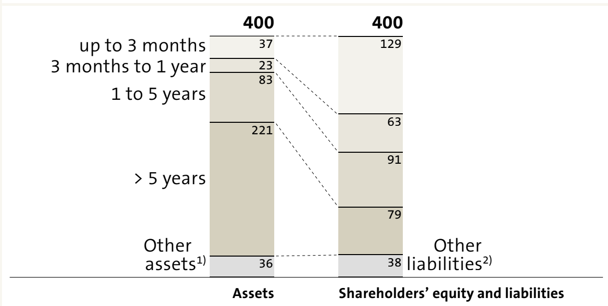
Hypo Real Estate Group differentiates between market liquidity risks, short-term liquidity risks and risks arising from the long-term refinancing structure.

The market liquidity risk is defined as the risk of inability to sell positions for the prices determined with internal valuation models, or the risk that there might not be any market for the positions.

Liquidity risk is defined as the risk of not being able to meet existing or future payment obligations (in relation to the extent and time structure) without restriction or on time. This would for instance be the case if – as indeed happened at Hypo Real Estate Group – there were no longer sufficient refinancing possibilities available on the market. The task of liquidity risk management is to measure and manage this risk, i.e. to ensure that the Holding and all subsidiaries are solvent in such a way that all payment obligations as well as regulatory requirements can be satisfied at all times and in all market situations. The liquidity risk is currently one of the crucial risks for the continued existence of Hypo Real Estate Group as a going concern.

Maturity structure of Hypo Real Estate Group balance sheet, according to IFRS as of 31 December 2007

in € billion



1) Cash reserve, assets held for trading, deferred tax assets, impairments, other assets
2) Shareholders' equity, liabilities held for trading, provisions, deferred tax liabilities, other liabilities

Liquidity risk strategy and management

Developments in 2008 A comparison of the maturity structure on the assets side and the liabilities side of the balance sheet of Hypo Real Estate Group as of 30 December 2007 shows that most long-term assets were refinanced only by short-term funds. This is applicable primarily to the transactions of DEPFA BANK plc, which are consolidated in this Group overview. For instance, long-dated infrastructure loans were refinanced with short-term money market products such as deposits and commercial paper. Long-dated government bonds were also refinanced by way of repo transactions with a term of one to six months.

This refinancing strategy had been followed for many years at DEPFA BANK plc. As a result of the nature of large parts of the assets, short-term refinancing was able to use uncovered refinancing with deposits or commercial paper or, as alternatives, the interbank repo market or repo transactions with the European Central Bank (ECB) or the Federal Reserve system (FED). Until the second half of 2008, all of the above-mentioned markets were liquid and fully functioning.

When the interbank market dried up almost completely following the collapse of Lehman Brothers on 15 September 2008, and higher and higher margin calls were required for repo refinancing in the interbank market, and only a limited amount of repo transactions was possible, it was no longer possible to arrange adequate cover for short-term liquidity. This was due in particular to the following factors:

- Hypo Real Estate Group became reliant on external liquidity support (ELA, Blue) and on repo transactions with the central banks. However, as a result of the extreme widening of spreads for virtually all securities on the balance sheet, the refinancing discounts due to the market values of the securities (the so-called haircuts) became increasingly higher. Despite the fact that the nominal value of the securities was the same, there was less and less central bank funding available.

- At the same time, foreign currency effects and collateral requirements further exacerbated the situation. The framework agreements for hedges against interest and foreign currency risks require that the corresponding positions have to be backed with collateral against market fluctuations, primarily in the form of cash collateral. Because of the deteriorating situation of Hypo Real Estate Group, the collateral demands of the counterparties became increasingly stringent. Rating downgrades of Hypo Real Estate Group after September 2008 resulted in a further sharp increase in the collateral demands, and the liquidity situation consequently came under further pressure. In addition, greater use was made of US liquidity facilities which had been promised in the past for supporting security issue programmes in the USA.
- And finally, the rating agencies tightened the criteria for covered bond ratings (including Pfandbriefe) and increased excess cover requirements. Because the excess cover has to be provided in the form of cash or high-value securities, this directly cost further liquidity.

The combination of factors detailed above meant that the liquidity of the Group was no longer assured in September 2008.

The stress scenarios which were implemented (beyond the scenarios specified by the regulatory authorities) did not simulate the collapse of the entire financial market; instead, they focused on standard analyses of singular incidents. As a result of the liquidity crisis of the third and fourth quarters, the liquidity forecast of the entire Group was thoroughly reviewed and extended to include Group-wide extreme scenarios such as the collapse of the Euro zone.

In order to prevent the Group from becoming illiquid, a syndicate of German banks and insurers as well as the Bundesbank with a guarantee of the Federal Government made available a liquidity framework of € 50 billion to the Group. Fundamental agreement regarding the volume was reached on 6 October 2008, and the complete volume was available on 13 November 2008. Hypo Real Estate Group is obligated to provide collateral, i.e. loans and securities, with a nominal volume of approx. € 60 billion for the liquidity lines. In addition, Hypo Real Estate Holding AG has pledged its shares in the operating subsidiary banks of the Group as collateral for the Federal guarantee.

In addition, the financial market stabilisation fund ("SoFFin") promised a guarantee framework with a total volume of € 30 billion to the Hypo Real Estate Group on 21 November and 9 December. This framework was confirmed on 12 January 2009 and extended until 15 April 2009. The guarantee framework was topped up by € 12 billion on 20 January 2009. The guarantees under the top-up arrangement have a term until max. 12 June 2009. And recently, the guaranteed framework was increased by a further € 10 billion on 11 February 2009.

As a result of the support measures described above, the liquidity ratio in accordance with the Liquidity Ordinance was 1.04 at year end at Hypo Real Estate Bank, and the corresponding figure for DEPFA Deutsche Pfandbriefbank was 1.22; these figures are thus higher than the statutory minimum of 1.0. The figure for DEPFA was also higher than the corresponding minimum figure specified by the Irish regulator.

The need to strengthen liquidity risk management enjoys the highest priority for the newly appointed Management Board of Hypo Real Estate Holding. The following measures have been implemented since October 2008:

Together with a reputable consultancy company, Hypo Real Estate Group introduced an improved consolidated reporting and planning process in October 2008. The liquidity Management Reports are prepared daily for the overall Group and are reported to the overall Management Board. The reports comprise the daily liquidity situation as well as forecasts on the basis of contractual cash flows and assumptions made with regard to future events which have an impact on the probable development of liquidity.

The improved process combines the various data sources across all subsidiary units and locations. The data is collected and aggregated from various systems with the support of the Treasury, Risk Controlling and Finance departments. The assumptions made for the probable development of liquidity are subject to constant analysis and, where appropriate, adjusted. The liquidity forecast is reported daily to the Management Board, and the necessary measures are adopted in the ALCO.

The organisation structure in Treasury, which is responsible for liquidity management, has been reorganised. The local organisation of the refinancing and treasury departments has been discontinued and replaced by a central Group-wide structure. In order to support the new liquidity management model, the Risk Controlling team with responsibility for liquidity controlling was substantially strengthened in terms of quantity and quality at the beginning of 2009.

The restructuring of the Group Asset Liability Committee has already been considered in the description of the committee structure in the Risk Report.

Refinancing structure

For refinancing, covered and uncovered issues are available as the main financing instruments to Hypo Real Estate Group.

The covered bonds comprise the following

- Public Pfandbriefe: issued by Hypo Real Estate Bank AG and DEPFA Deutsche Pfandbriefbank AG with an outstanding nominal volume of € 64.6 billion as of 31 December 2008 (previous year: € 72.3 billion)
- Mortgage Pfandbriefe: issued by Hypo Real Estate Bank AG with an outstanding nominal volume of € 19.1 billion as of 31 December 2008 (previous year: € 22.4 billion)
- Asset-covered securities (ACS, the Irish covered bond): issued by DEPFA ACS Bank with an outstanding nominal volume of € 40.9 billion as of 31 December 2008 (previous year: € 46.6 billion)
- Lettres de Gage (LdG, the Luxembourg covered bond): issued by Hypo Pfandbrief Bank International with an outstanding nominal volume of € 5.8 billion as of 31 December 2008 (previous year: € 6.4 billion).

As a result of their high quality and stable maturity profile, the existing covered bonds have been affected to a relatively minor extent by the market turmoil. Although it is still scarcely possible for new issues to be placed at present, the Management Board expects that this source of refinancing will be one of the first to become available again once the markets recover. The restructuring of the business model based on new business eligibility for cover funds takes account of this expectation.

In addition to the covered bonds, Hypo Real Estate Group is able to issue medium-term and longer-term uncovered bonds and debt instruments via the various entities in the Group. The uncovered issues are complemented by unsecured money market products. Deposits and commercial paper are some of the main refinancing instruments in this respect. At present, Hypo Real Estate Group is not able to issue uncovered refinancing instruments.

The extent of the liquidity requirement for 2009 depends on numerous factors. Most short-term refinancing instruments have expired and have been replaced by the liquidity support of the SoFFin and the banking syndicate. However, it is only possible for scenarios to be defined for a variety of factors:

- The future development of haircuts for repo refinancing
- Possibly additional collateral demands as a result of changing market parameters (such as interest rates and foreign currency rates)
- The development in collateral demands for hedges
- The further development of requirements of the rating agencies with regard to Pfandbriefe and covered securities.

However, to secure the liquidity requirement, unrestricted access to the central banks (in particular the ECB and FED) and the continuation of the € 50 billion facility (made available by German banks and insurers, the Bundesbank and the Federal Government) are crucial for refinancing Hypo Real Estate Group in 2009.

Operational Risk

Operational risks are inevitably associated with all business activities and have to be monitored very intensively, particularly in times of problematical situations due to internal and/or external causes, such as those which have been experienced by the entire financial sector and in particular Hypo Real Estate Group in the year under review.

Definition

The Group defines "operational risk" as the risk of losses caused by process errors, human error, technology failure or external events. The definition includes legal risks, but excludes strategic and reputation risks.

Organisation

Group Operational Risk (GOR) is responsible for operational risk management throughout the Group and, as a risk management function independent of sales, reported directly to the Group CRO for most of the year under review. Since December 2008, the department has reported to the "Office of the Chief Risk Officer".

Risk strategy, identification and management

GOR follows the primary aim of Group Operational Risk – namely limiting the operational risks of the Group to a reasonable level – by means of the following major stipulations and methods introduced throughout the Group:

- The operational risk policy defines the uniform handling of this risk type throughout the Group.
- Loss databases are used for recording losses which have already occurred as a result of operational risks, and enable processes and systems which historically have been particularly susceptible to errors to be identified; the purpose of the analyses of the causes is to avoid similar cases.
- The risk self-assessment carried out throughout the Group identifies current sources of potential risk in processes and systems; workshops are held to develop measures for managing identified risks with the individual segments.
- Risk early warning indicators – certain risk-relevant parameters – which are recorded automatically and regularly, point to unfavourable developments.

Group Operational Risk evaluates data which have been collated, advises and draws up proposals for preventing or managing operational risks together with the business units. Operational management of this risk is the responsibility of the corresponding head of the business unit.

In order to support management of operational risks, in particulary critical processes or systems, GOR acts on behalf of the Management Board to carry out individual analyses which enable a plan of specific measures to be drawn up.

Risk reports

Group Operational Risk prepares an incident and loss report for operational risks on a quarterly basis for the Management Board of the Group. This report shows the main risks to which the Group is exposed. A monthly key risk indicator report is also drawn up for the Management Board and the next tier of management. The results of the risk self-assessment are reported to the Management Board after the assessment has been completed. After a specific risk analysis, the relevant member of the Management Board receives a final report. In future, the Risk Committee will use these reports to derive and implement suitable measures for preventing risk.

Risk quantification

Capital backing for operational risk in accordance with Basle II or the EU Capital Requirements Directive amounted to € 277 million at the end of 2008 (December 2007: € 237 million). The figure is calculated on the basis of the standard approach for Hypo Real Estate Group.

Within the framework of the risk-bearing capacity analysis, risk quantification is determined for operational risks by way of scaled operating revenues, similar to the situation in the Basle II standard approach. Since the fourth quarter of 2008, the implicit revenues resulting from the intended return on equity have been used. It was decided that the method would be changed to stabilise the calculated values and in cases in which revenues are negative. The values in accordance with the Basle II standard approach are used as scaling factors. A further factor scales the value to the corresponding confidence level of economic capital. Excluding diversification effects, the economic capital amounted to € 438 million as of 31 December 2008 (December 2007: € 448 million).

New product process

The new product process (NPP), which comprises all risks and processes which may be associated with the start of business in new products or markets, is coordinated by the Group Operational Risk department. In 2008, a Group-wide NPP policy was drawn up in order to harmonise the process. At the beginning of 2009, it was presented to the Group ALCO and the Group R(M)C for a decision to be taken. In 2008, the corresponding NPP policies of the individual subsidiaries were valid. Regular reports concerning the new product process are sent to the CRO as well as the Risk Management Committee.

Major operational risks

The major operational risks of the Group are personnel risks (e.g. reliance on key personnel) and technology risks (e.g. due to the large number of accounting systems, monitoring of external providers).

In 2008, numerous IT system failures were reported at the New York office of DEPFA; one of the reasons behind these system failures was the strong reliance on external IT providers. This situation was improved by way of insourcing as well as additional technical system back-up. The affected processes were analysed by comprehensive "front-to-back" process analyses of all major control processes. Corresponding projects were set up for identifying control weaknesses.

The Group combats the risks arising from the current IT systems in general by the process of restructuring the IT architecture which was commenced at the end of 2008 with external support and which also comprises standardisation of the IT platforms as well as a central data warehouse. The reduction in the number of systems and the related interfaces will considerably reduce the sources of error.

In connection with the incident of fraud at Société Générale, the Irish regulator ordered an intensive analysis of all relevant processes to be carried out for all Irish banks. For the control problems identified, which can be classified as regulation, governance, control processes and Basle II, the Management Board of DEPFA adopted a project consisting of 17 sub-projects. In the initial phase of the project, five issues were completed in 2008; 12 subprojects will be completed in a second phase in the first half of 2009.

No major loss attributable to operational risks occurred in 2008.

Legal risks

Management of legal risks as a component of operational risk is very important within Hypo Real Estate Group. There is particular focus in this respect on the categories of contract risks, risks of legal verdicts and legal risks of the property to be financed.

The Group defines contract risk as the possible disadvantages arising from contracts or parts of contracts which are not enforceable, due to errors in the contract form or documentation. Hypo Real Estate Group also uses standard contracts on an international basis, where possible. Individual contracts are drawn up by external lawyers or employees with legal training who are very familiar with local contract law. The contract specimens and clauses which are used are regularly checked internally and externally in order to identify economic and legal consequences.

The legal verdict risk is the risk that, following a change in legal verdicts, contracts which have been signed in an enforceable manner become entirely or partially unenforceable or ineffective. Group Legal constantly monitors the development of legal verdicts in order to limit this risk.

Examples of the legal risks attributable to a funded property are inadequate rental contracts, or failure to obtain public sector approvals which can influence the value of the funded property. In order to avoid such risks, Hypo Real Estate Group regularly carries out legal due diligence in addition to a financial audit before signing a contract.

A detailed overview of the existing official and court proceedings is set out in the chapter “Major events” in the Management Report.

Risk-bearing Capacity Analysis

The formal shape of the process of risk-bearing capacity analysis (ICAAP: Internal Capital Adequacy Assessment Process) is a major requirement of MaRisk. The institutions are required to demonstrate that sufficient capital is always available to cover all risks which are taken on. For this purpose, a risk-bearing capacity calculation must be carried out at regular intervals. In the risk-bearing capacity calculation, the economic capital which is determined is compared with the so-called risk cover funds in order to check whether capitalisation would be adequate in the event of a crisis.

The economic capital is the internal quantification of risks which are associated with the Group's business activities. The economic capital is the capital which is necessary in order to be solvent for a period of one year in conjunction with a target rating – at the end of 2007, this was AA (confidence level of 99.97 %), and the rating at the end of 2008 was A (99.95 %) based on the S & P senior unsecured long-term ratings. It is used as the basis for the internal risk-bearing capacity analysis. For determining the economic capital, due consideration is given to risk types other than those which are necessary for calculating the regulatory capital backing in accordance with Basle II.

Capital components included in the risk cover funds are not clearly defined, and depend to a large extent on the business and accounting policies of the individual institution. The definition of risk cover funds comprises the budgeted result, hidden reserves/burdens, capital reserves and retained earnings as well as the capital which is made available. The aim of Hypo Real Estate Group is to maintain an adequate risk cushion by means of a combination consisting of shareholders' equity, equity-related instruments as well as certain components of subordinate capital which are suitable for cushioning potential losses. The totality of these capital modules (risk cover funds) must always be greater than a loss which may potentially occur (economic capital).

The main risk on the basis of ICAAP (in which the liquidity risk is not included) to which the Group is exposed is credit risk, followed by market risk, business risk and operational risk. This is also reflected in the distribution of economic capital as of 31 December 2008; credit risk accounts for more than 85 % of economic capital.

Excluding the diversification effects between the risk types, the economic capital of the Group is approx. € 8.1 billion (December 2007: € 5.6 billion). If these are taken into consideration, this figure is reduced to approx. € 7.3 million (December 2007: € 4.9 billion).

Compared with 31 December 2007, the economic capital for credit risks has increased appreciably. This is due to the wider credit spreads particularly for sovereign and sub-sovereign borrowers and the related volatilities. The increase in the measured concentration risk is also particularly relevant in this respect. This concentration risk is

Economic capital by risk types
excluding diversification effects

in € million	31.12.2008	31.12.2007	Change
Credit risk (default/migration and credit spread risk in the banking book)	5,905	4,030	1,875
Market risk (credit spread volatility in the trading book)	454	254	200
Market risk (interest and currency risk)	692	264	428
Risk of the Bank's own real estate holdings	76	102	–26
Risk of investment holdings	99	125	–26
Business risk	388	345	43
Operational risk	438	448	–10

recognised globally in the credit portfolio model, and is reflected in a higher percentage allocation of capital. For instance, 20 % of the capital is allocated to the five counterparties which account for most capital, although they account for only 10 % of Group exposure. The economic capital for market risks has also increased significantly compared with the end of 2007. This is due to particularly sharp increases in volatilities for credit spread, interest rates and exchange rates.

The economic capital of each risk type is determined by means of a quantitative approach, and is aggregated to form the total bank risk taking account of specific correlations after their suitability for Hypo Real Estate Group had been checked. In accordance with a common market standard, the risk types are scaled to a period of one year.

The calculation and allocation of economic capital is subject to various assumptions and expectations. The method has been developed further in the period under review in order to ensure that the process of determining economic capital is consistent and comprehensive. The method is improved using the procedure which is normal between banks by way of participating in surveys, reviews and exchanging information with other banks, and is compared with the market environment.

The significant widening of credit spreads in the fourth quarter of 2008 in particular meant that it was necessary to update the credit spread parameters used in the credit portfolio model.

The definition and method of calculation for the economic capital of the risk types credit risk, market risk and operational risk have been detailed in the preceding chapters.

Business risk

The economic capital is scaled individually on the basis of the scaling of operating costs for each operating segment. The operating costs are used as an approximation for the fixed costs which would have to be covered in the event of a collapse in earnings. Similarly, and for the same reasons as those applicable for operational risks, the calculation base was changed over to using implicit costs from the cost-income ratio of 35 % (based on the value of the third quarter of 2008) in 2008. The most conservative value from various equivalent operating segments which are determined externally is used for the scaling factors.

Business risk comprises several underlying risk categories, which mainly consist of strategic risk and the risk of fluctuations in costs/income, and thus to a certain extent also comprises liquidity risk. The conditions of the rescue package for the Group will have a negative impact on result of operations.

In addition, the strategic risk is also managed by maintaining staff qualifications and the quality of processes and information in order to ensure that appropriate strategies are applied in order to ensure consistent earnings. Management of strategic risk includes the following

- Performance assessment and training processes for employees in order to ensure that employees (management as well as non-management) are aware of the processes which are intended to assure the future earnings of the Group, and that they actually apply these processes. These processes are regularly reviewed and adjusted if necessary.
- Corresponding reporting structures in order to ensure that management has the information required in order to take appropriate strategic decisions for the Group. Reporting structures and frequencies are regularly reviewed and adjusted if necessary. In addition, responsibilities for preparing and distributing management information are specified in the work instructions of the corresponding departments.

Investment holdings and the bank's own real estate holdings

Although both risk types are comparatively minor, the Group calculates economic capital for these risk types. Together, they account for approx. 2 % of the Group's economic capital.

The investment risk is modelled via the volatility of an equity index, whereas the risk of the Bank's own real estate portfolio is derived from the volatility of the MSCI real estate index over a 12-year history. The Group reduced its own real estate portfolio in 2008, but is assuming that the portfolio will increase in 2009 as a result of rescue purchases. The investment portfolio has declined simply as a result of the reduction in the value of individual positions, but is also to be actively reduced as far as possible.

Liquidity risk

Even in the current situation of the Group, the approach of using specific capital as a cushion in times of substantial liquidity risks is not without its problems. Capital sources, such as shareholders' equity and subordinate capital, may become illiquid as a result of systematic or specific reasons. Capital cannot replace the function of credit lines or high-quality assets. The distinction between capital and liquidity in times of a liquidity crisis shows that liquidity risks have to be managed, but not by way of providing economic capital. The purpose of calculating the economic capital is to ensure that lenders will retrieve their claim with a certain probability in the event of a default.

However, liquidity risks are taken into consideration by means of additional meaningful stress tests which are currently being developed at Hypo Real Estate Group.

The potential increase in the funding costs for the planned unsecured short-term and medium-term funding requirement in the event of the Group being downgraded by one notch was used for the purpose of the risk-bearing capacity analysis. This estimate is based on the most significant change in the swap rates during the past eight years, as shown in the JP Morgan Asset Swap indices. The approach is based on the assumption that asset swap rates always show the credit price as spread above Libor. The approach is not used for calculating economic capital, and instead is used for stress tests.

Stress tests

Models are generally affected by the weakness that they are based on historical data. If an event, such as the current financial market crisis, has not occurred in the past, the models are not able to properly simulate the corresponding effects. For this reason, suitable stress tests have to extend the value-at-risk calculation.

Hypo Real Estate Group considers that stress tests are an instrument for proper regulatory and economic capital management, and established a new and much more extensive stress test concept in 2008.

Stress tests have been designed as clear and transparent support for risk management and are regularly performed for nine categories:
- Downgrade of the main counterparties
- Stress tests for the real estate credit portfolio
- Stress tests for the creditworthiness of counterparties
- Operational risks
- Business risks
- Participation risk
- Risks of the Bank's own real estate holdings
- Stress tests for refinancing and liquidity
- Market risks.

The results of the main stress tests are detailed in the tables on the next page.

Result of the stress test The public sector and infrastructure portfolio in particular shows concentration risks in borrower units. The stress tests show that the Group is affected by downgrades of major borrower units.

Downgrade of the main counterparties

in € million	Rating Current	Rating Scenario	Credit exposure	Impact on economic capital
Euro member state	AA2	A2	24,721	1,173
Spain real estate customer	C	D	380	−63
Euro member state	A1	BBB1	8,031	108
Asian state	AA3	A3	7,143	102
EU member state	A2	BBB2	4,118	228

Stress test of the real estate credit portfolio

in € million	Exposure	Impact on economic capital
Test: The LGD of all real estate financing in the cover funds is doubled and set to > 35 %		321
Test: Default of the ten largest counterparties (based on expected loss)		−96

Credit quality of counterparties

in € million	Exposure	Impact on economic capital
Test: All counterparties are downgraded by one rating notch		1,080
Test: 20 % of exposure is downgraded by five notches		2,661
Test: All credit insurance considered to be of no value	6,301	−39

Operational and business risk

in € million	Impact on economic capital
Test: Operational risk increased by a factor of 5	620
Test: Business increased by a factor of 5	1,029

Risk of the bank’s own real estate portfolio and investment risk

in € million	Impact on economic capital
Test: All investments rated 0	99
Test: All own property rated 0	76

Results of risk-bearing capacity

At the end of 2007, Hypo Real Estate Group had a capital cushion equivalent to approx. 26 % of the available risk cover funds. In line with the financial crisis, the risk cover funds declined considerably in the course of 2008 as a result of impairments recognised in relation to certain assets as well as changes in values in the trading and AfS portfolios. On the other hand, economic capital increased as a result of wider credit spreads, particularly for state and municipal borrowers and the related volatilities. The above-mentioned reclassification of assets did not have any impact on economic capital, because the focus was on an economic approach in this respect right from the very beginning and because the credit sensitivity of all banking book assets is determined in the credit portfolio model.

In mid-2008, Hypo Real Estate Group was adequately capitalised in accordance with the internally defined target rating. After the third quarter 2008, the risk-bearing capacity analysis – particularly as a result of the widening of credit spreads – identified undercapitalisation, which materialised even further as of the end of 2008. Accordingly, it was not possible to provide evidence of adequate economic viability beyond the above-mentioned period. As reported elsewhere, negotiations had been started with various parties, including the SoFFin, for recapitalising and assuring liquidity.

Integration in the risk management process

The results of the economic capital and stress tests are regularly presented to the central Management Board and R(M)C in order to be adopted or noted. An ICAAP-based pricing model which is based on a marginal capital allocation in accordance with the risk-bearing capacity analysis is used in the Public Sector & Infrastructure Finance segment.

Outlook

As a result of the continuing financial market crisis and growing uncertainty regarding economic developments, Hypo Real Estate Group still expects to encounter high levels of volatility on worldwide financial markets. Accordingly, the requirements regarding risk management and risk management mechanisms are becoming increasingly stringent. In this context, Hypo Real Estate Group is consistently improving its risk management system across all risk types. The focus is on processes, procedures and methods as well as risk-relevant IT systems in order to successfully combat the potential risks for the Hypo Real Estate Group. With regard to liquidity risk management, the focus is on the complete IT implementation of the liquidity forecast model.

The expansion of the Global Workout function will be a key issue in 2009 – in addition to the complete introduction of the Advanced IRBA in accordance with Basle II at DEPFA. The risk early warning system is to be improved further, on the basis of the existing organisation, by way of optimising the processes and expanding capacities and skills. Success in risk management will depend to a considerable extent on the prompt recognition of problem exposures, and a targeted, successfully implemented restructuring strategy.

At present, it is not possible to assess the extent or the duration of the crisis on the real estate markets. Hypo Real Estate Group is assuming that the situation will continue to deteriorate in Spain, Italy, Great Britain and the USA. As a result of the global economic downturn, the commercial real estate markets of countries which so far have not been particularly affected, such as Germany, are also expected to be affected. Overall, it is expected that the risk parameters will deteriorate further and that in 2009 there will be a further increase in the real estate credit portfolio which is exposed to risk.

Macro-economic Conditions

Although the range of estimates is wide, it can be assumed that the economic turmoil will continue to be felt appreciably in 2009 and that the economies in many regions will suffer a considerable contraction for the first time in many years. A contraction of around 2.5 to 5 percentage points is being assumed for the European economies and also for the USA, although even more pessimistic forecasts exist. Accordingly, the inflationary pressure which was very pronounced in certain areas in 2007 and 2008 is expected to disappear again. For the US even a light deflation is to be expected for 2009. Due to the current massively expansive monetary and fiscal policy measures some observers expect clear potential for inflation in the mid-term, however. To what extent this becomes reality, depends especially on whether the by political intervention massively increased liquidity, can be reduced by the central banks in the next economic upturn.

The greatest and most significant unknown for the economic forecast for 2009 is the further development of the financial sector. At present, it is not possible to estimate the impairments which the individual banks will have to recognise for financial year 2009. Despite all attempts to help the financial sector with state support – in Germany mainly coordinated with the aid of the financial market stabilisation fund – the structural adjustments in this sector were still ongoing at the beginning of 2009. Resultant credit restrictions for the economy are ensuring that the financial crisis will spill over into the real economy.

According to the OECD, the development of the labour market in Germany which was still positive until the end of 2008 will be much less positive in 2009, i.e. unemployment is expected to rise again for the first time since 2003. If the economy remains weak, companies which up to now have used short-time working to cope with surplus capacity, might lay off staff, which could increase unemployment more significantly than has previously been expected.

Financial markets

Because the financial markets are still reflecting very high levels of uncertainty, the year 2009 will greatly depend on the speed and extent to which many banks will be able to streamline and stabilise their balance sheet, reduce their credit portfolios and improve their capital situation. Because all market participants will continue to exercise extreme caution on the markets, liquidity will not be available to the extent which has been usual in the past, and high risk premiums will determine pricing. The possibilities for securitising receivables will have no significance for the foreseeable future. The situation is being exacerbated by the fact that developments on stock markets are simultaneously very uncertain. This will result in a short supply of credit, and will offer the possibility of attractive margins to those market participants who are able to refinance their operations by way of access to large volumes of deposits or who have specialised in a niche market, e.g. Pfandbrief-covered lending business.

Sector-specific Conditions

Commercial real estate Most real estate markets are likely to continue to be weak in 2009 as a result of the overall economic situation. Real estate prices will probably continue to decline in virtually all key markets such as the USA and Great Britain, as well as Germany, France, Spain and Scandinavia. Demand will continue to be weak as long as there are no signs of any economic improvement and thus stimulus to demand in the core markets of Great Britain, France, the USA and Germany. Foreclosures, rescue measures and vacancy levels will rise, rents in most markets will decline further, resulting in a further burden on the portfolio quality of most investors as well as the credit portfolio quality of banks. Because many investors took out investments which were based on the assumption of medium-term capital gains which have failed to materialise, there are no exit opportunities available to these investors. Many planned project developments will not be realised or will be completed at a time at which there will hardly be any tenant demand. All of these factors detailed above will probably increase credit default risks significantly.

Demand for commercial real estate financing in Great Britain, the USA, Germany, France and Japan will focus primarily on follow-up financing in 2009. This volume is estimated to be approx. US$ 400 billion for next year. In the past, securitisation transactions created additional financing capacities. Such securitisation transactions have now come to a virtual standstill, and most competitors are having to reduce their portfolios. This means that new business at most market participants is very restrictive. All of these circumstances will probably result in a funding-supply shortage in the medium term. Banks will focus on supporting key clients with regard to financing, on improving their own liquidity situation and coping extensively with the increasing risks in existing credit portfolios. Some competitors will withdraw from the market. On the other hand, despite higher refinancing costs, there will be demand for credit from sound investors which will not be fully covered by the tight supply. Accordingly, credit institutions which either enjoy adequate deposits or which are able to refinance their operations by means of sound refinancing instruments such as the Pfandbrief will continue to enjoy good business opportunities with very attractive margins.

New business stimulating the market will only be possible to a limited extent before the year 2010. After a certain point is crossed, property values and yields might motivate liquid investors to enter the market selectively in the years 2009 and 2010. There might accordingly be light at the end of the tunnel for the markets at the end of 2010/ beginning of 2011.

Public sector finance The year 2009 will bring significant challenges for public finance throughout Europe. Firstly, numerous transactions which expire this year will have to be refinanced; secondly, the public sector generally pursues investment plans covering several years and therefore cannot completely cut back investments. In addition, demand for anticyclical deficit financing is expected. The difficult financial situation of some countries, e.g. Iceland, Austria, Italy, Greece, Hungary and Ireland, as well as US municipalities, may result in rating downgrades and might also result in defaults, not only at the level of municipalities. Margins have already risen significantly, and will probably continue to do so, whereas maturities are being reduced. Risk aversion will probably increase. Overall, liquidity, and no longer price, is the driving force. Numerous former players on the public finance market will have to structure the credit risk as well as refinancing for their existing portfolios, and some will withdraw from the market. For lenders who enjoy sound funding possibilities, these factors offer business opportunities with prime borrowers in conjunction with very attractive margins.

When the financial markets recover, risk premiums are expected to fall in conjunction with lower refinancing costs; however, this is not likely to occur before the year 2010.

Infrastructure finance The supply of credit will decline and margins will also rise considerably in this sector. Nevertheless, demand in this sector will be boosted considerably by the wide range of economic programmes which have been set up by various countries.

Capital markets and asset management Capital markets will continue to be very uncertain in 2009, and will feature high levels of volatility, low liquidity and a considerable lack of confidence in the markets. Sales will decline, and the market will prefer tried-and-tested standard products over complex financial innovations. The markets for securitisations will continue to be of no significance in 2009.

Company-specific Conditions

The forecasts which relate to the future development of the Hypo Real Estate Group constitute estimates which were made on the basis of all information available at present. If the assumptions which are used as the basis of the forecasts fail to materialise, or if risks (such as those discussed in the risk report) occur to an extent which had not been calculated, the actual results may differ considerably from the results which are currently expected.

The existence of most companies in the Hypo Real Estate Group was threatened after September 2008. The precise causes, the development and the measures taken to stabilise the Hypo Real Estate Group are described extensively in the section "Major events".

Hypo Real Estate Group is assuming that it will be a going concern and will continue in operation under the following described conditions (external factors/internal factors). Based on present information, the Management Board considers it currently as predominantly probable that these conditions are existent or will occur. The forecast of the future development of the Group is based on the strategic refocusing and restructuring adopted by the Management Board in December 2008. The revised strategy and the adjusted business model are described extensively in the sections "Corporate strategy", "Products and business processes" as well as in "Major events".

External factors

- The Hypo Real Estate Group will receive further essential liquidity support from the German Finanzmarktstabilisierungsfonds in respect of terms and total volume. Moreover, the Hypo Real Estate Group will receive necessary capital support from the German Finanzmarktstabilisierungsfonds to strengthen its capital base. These supports will be granted under reasonable conditions.
- The capital markets environment will begin to stabilise from 2010 to 2012, particularly if there is no further serious deterioration of the financial market crisis from unforeseeable consequences, for instance triggered by external shocks such as the collapse of major states or major banks and the crisis of the real estate markets does not result in defaults of loans and securities to an extent which would pose a threat to the existence of the Hypo Real Estate Group.
- The interbank market and other short-term unsecured refinancing markets as well as the long-term secured and unsecured refinancing markets start to recover from 2010. The ratings of the companies of the Hypo Real Estate Group will stabilise or slightly increase. The support by the syndicate from the German financial sector and the Deutsche Bundesbank with the involvement of the German Federal Government as well as the German Finanzmarktstabilisierungsfonds can be covered by own funding in the following years.

Internal factors

- The Hypo Real Estate Group succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no delays or obstructions to the implementation of the restructuring of the Hypo Real Estate Group that aims to improve efficiency, profitability and streamlining of business processes.
- Work-out or restructuring of non-performing loans throughout the Hypo Real Estate Group can be implemented as currently scheduled.

On 28 March 2009, the financial market stabilisation fund confirmed to Hypo Real Estate Holding AG and Hypo Real Estate Bank AG that it intends to stabilise the Hypo Real Estate Group in a sustainable manner by way of adequate recapitalisation and, for this purpose, intends to acquire an equity participation in Hypo Real Estate Holding AG.

The precondition for the intended recapitalisation of the Hypo Real Estate Group by the financial market stabilisation fund is the acquisition of complete control (100 %) over Hypo Real Estate Holding AG by the financial market stabilisation fund or the Federal Government.

As a first step in the direction of recapitalising the Hypo Real Estate Group, the financial market stabilisation fund has agreed to acquire 20 million Hypo Real Estate Holding AG shares before the end of March 2009 for a price of € 3.00 per share, whereby shareholders' subscription rights will be excluded.

The Management Board of Hypo Real Estate Holding AG has provided a commitment to the financial market stabilisation fund that it will take the steps necessary for implementing the recapitalisation.

Risks threatening existence

The continuance of the Hypo Real Estate Holding AG as a going concern is dependent on the assumption that sufficient equity will be provided to the Hypo Real Estate Holding AG and their significant subsidiaries to fulfil regulatory capital requirements as well as to avoid a situation of sustained over-indebtedness. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries or the Hypo Real Estate Holding AG itself. Such liquidity support must be available until the Hypo Real Estate Holding AG and its significant subsidiaries are capable of raising sufficient liquidity via the money and capital market by themselves and the described restructuring plans are implemented as scheduled.

In order to ensure the continuance of the Hypo Real Estate Holding AG and its significant subsidiaries as a going concern it is thus necessary that
- the German Finanzmarktstabilisierungsfonds provides sufficient support in the form of equity,
- the German Finanzmarktstabilisierungsfonds and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance,
- refinancing with sustainable conditions via the money and capital markets occurs,
- the restructuring plans will be implemented as scheduled
- the responsible authorities do not take regulatory actions, and
- no legal caveats (especially EU legal action) will be successfully enforced.

Even if the Group's operations are continued and the before-mentioned criteria are met, the fact that it is not possible at present to predict due to existing uncertainty and imponderability the further development of the crisis on the capital and financial markets means that it is also not possible to make a reliable estimate of the future conditions on the markets. The international financing markets are fragile and, in certain areas, are not functioning or are only able to function to a limited extent. In particular, the interbank market is still very much deteriorated despite government rescue packages. In this context, it is currently possible that the credit economy – and thus also the Hypo Real Estate Group – will have to cope with further problems in the course of the next few quarters. The main effects and risks relating to the net assets, financial position and results of operations of the Hypo Real Estate Group, apart from the risk of non-existence or non-occurrence of before-mentioned criteria, are the following and have been considered by the Management Board when forecasting the future development of Hypo Real Estate Group:

Development in earnings Hypo Real Estate Group will probably not generate a distributable profit in the course of the next few years. A loss situation is anticipated for at least financial years 2009 and 2010. The loss situation will be in particular influenced by the occurrence or non-occurrence respectively the degree of implementation of the following risks that may occur:
- The costs for loans and liquidity lines made available by the other banks, the Bundesbank and the financial market stabilisation fund including the additional costs for interim bridging of the liquidity shortage provided by the Bundesbank are considerably higher than the previous refinancing rates (the precise costs are described in the section "Major events"). Net interest income will accordingly be affected to a considerable extent, and the profitability of the Hypo Real Estate Group will decline.

- The rating downgrades by the agencies Standard & Poor's (long-term BBB), Moody's (long-term A2) and Fitch (long-term A–) will mean that refinancing will become more expensive, and will also have a negative impact on net interest income, until ratings improve as a consequence of the assumed supports.
- Further widening of credit spreads and a deterioration of the securities pool may result in additional costs arising from the collateralised debt obligations which have to be recognised in the income statement under net income from financial investments and net trading income. In addition, default risks and other deteriorations of market conditions may result in lower fair values of trading assets, which would have to be recognised immediately in the income statement. It may also be necessary to recognise impairments on holdings which have been reclassified from "held-for-trading" and "available-for-sale" into "loans and receivables" in accordance with IAS 39.
- If contracting parties get into financial difficulties as a consequence of the crises on capital and financial markets or even have to announce insolvency, impairments on securities and loans could be unavoidable.
- In response to the more difficult refinancing possibilities, the Hypo Real Estate Group will focus on new business refinanced with Pfandbriefe. Overall, new business in commercial real estate financing and public finance will decline sharply compared with previous years. This will result in a decline in net commission income. In addition, the size of the portfolio will probably decline as a result of sales and shorter maturities and sales, and will thus depress net interest income. In addition, the negative market values might result in the case of disposals in disposal losses and would depress the interest income or the result from financial investments.
- Following the US real estate market, prices on some European real estate markets such as Great Britain and Spain are now also falling sharply. The situation of some public sector and infrastructure customers has also deteriorated. As a result of this and also in view of the fact that the overall macro-economic situation has deteriorated, provisions for losses on loans and advances will probably be at an increased level in 2009 and 2010.
- High expenses were incurred in the third and fourth quarter of 2008 as a result of adjusting the business model to the new market situation and the planned repositioning of the Hypo Real Estate Group. Further costs will also be incurred in 2009 and 2010; however, they will not be of the same magnitude as the costs of the previous year, and should be presumably more than offset by the long-term savings attributable to the restructuring process.
- Litigations might have a negative impact on the results of the Hypo Real Estate Group.
- As a result of the rating downgrades, several ISDA master agreements as well as guaranteed investment contracts have been terminated or could be terminated in the future; this may result in costs due to premature contract termination and may also result in costs to repurchase hedges. The bank might incur additional costs as a result of the limited choice of counterparties due to their current long-term ratings.

Development in assets The development in assets of Hypo Real Estate Group is particularly influenced through the occurrence or non-occurrence respectively the degree of implementation of the following risks that may occur:

- If the credit spreads of states and other banks widen further, the values of the securities issued by them will decline. Hypo Real Estate Group has reclassified most of the available-for-sale securities into Loans and receivables in accordance with IAS 39 "Reclassification of financial assets" which was published in October 2008. However, for the remainder of the available-for-sale securities, widening of credit spreads would have a further negative impact on the AfS reserve.
- The portfolio of holdings will probably decline as a result of maturities or sales, in line with the focus on functioning Group areas of activity.
- The difficult situation and the subsequent action taken to stabilise the Hypo Real Estate Group have resulted in debates on the political scene, in the media and in the public. Overall, the image of the Hypo Real Estate Group has suffered. It is possible that there might be negative consequences for future business and customer relations, even if the Management Board considers to regain customers' confidence in the future.

Development in the financial position The development in the financial position of Hypo Real Estate Group is particularly influenced through the occurrence or non-occurrence respectively the degree of implementation of the following risks that may occur:

- At present, the refinancing of the Hypo Real Estate Group is dependent on the already agreed and additionally necessary support measures provided by the financial market stabilisation fund as well as the German financial syndicate and the Bundesbank.
- If the functionality of the interbank market continues to be affected, it will continue to be difficult to obtain independent funding for the companies of the Hypo Real Estate Group. In addition, the access to certain refinancing markets may be harmed without the assumed stabilisation of the ratings. Moreover, the concrete liquidity requirement is dependent, amongst others, on the customers' behaviour and the market development. Thereby, currency and interest changes as well as credit spread movements on credit market for securities may have a considerable impact.
- The Hypo Real Estate Group has issued irrevocable loan commitments and liquidity facilities. Drawings may result in additional outflows of liquidity.
- As a result of the impairments recognised in 2008 in relation to goodwill, collateralised debt obligations and other assets and also as a result of the costs incurred in connection with the strategic refocusing and restructuring of the Hypo Real Estate Group, IFRS shareholders' equity and the core capital backing of the Hypo Real Estate Group declined appreciably. On the other hand, Hypo Real Estate Group assumes that its regulatory core capital ratio will improve considerably as a result of the support provided by the financial market stabilisation fund. In the years 2009 and 2010, IFRS shareholders' equity and the regulatory core capital may decline again as a result of the factors detailed above, whereas, based on the assumed support measures by the financial market stabilisation fund, it is expected that such a decline will not put into question the going concern of the Hypo Real Estate Group.

The adjusted business model may be an opportunity for the Hypo Real Estate Group. In the field of commercial real estate financing, many competitors will probably go out of existence or will be seriously weakened. Moreover, due to the shortage of liquidity in the market, the granting of loans is more restrictive. In consequence, margins on the real estate financing market rised and a new material decline to a pre-crisis level is not assumed, even if the situation on the refinancing markets settles down. The globalisation of financial flows and investors of large volume projects will appreciate a specialist commercial real estate financier such as the Hypo Real Estate Group due to its specific market and product knowledge; the Group's expertise is recognised on the market despite the liquidity problems. Numerous competitors in the field of public sector finance are also affected by the financial market crisis. The experience of the Hypo Real Estate Group in Pfandbrief business may be an advantage in this context. In this context, the Hypo Real Estate Group will continue to search for market opportunities in 2009 and 2010 and generate new business with attractive margins. In line with overall strategy, the focus will be on Pfandbrief-eligible follow-up funding and newly acquired business in the commercial real estate and public sector segments.

It will not be possible to pay a dividend for financial year 2008 as a result of the terms of the support measures of the financial market stabilisation fund and the poor results of the Hypo Real Estate Group. From a current point of view, it is also likely that no dividend will be paid in subsequent years for these reasons. The results for 2009 and 2010 will be considerably affected by the costs of the liquidity support measures, costs incurred in connection with the strategic refocusing and restructuring of the Group and further impairments in relation to receivables and securities to be expected as a result of the downturn in the economic climate. Overall, pre-tax profit is expected to be negative at least in 2009 and 2010.

Consolidated Financial Statements

Income Statement for the Period from 1 January to 31 December 2008

Income/expenses

in € million	Note · page	2008	2007	Change in € million	Change in %
Operating revenues		−585	906	−1,491	<−100.0
Net interest income and similar income	32 · 154	1,633	1,105	528	47.8
Interest income and similar income		16,828	9,983	6,845	68.6
Interest expenses and similar expenses		15,195	8,878	6,317	71.2
Net commission income	33 · 154	32	198	−166	−83.8
Commission income		200	238	−38	−16.0
Commission expenses		168	40	128	>100.0
Net trading income	34 · 154, 36 · 155	−1,009	−224	−785	<−100.0
Net income from financial investments	35 · 154, 36 · 155	−1,409	−169	−1,240	<−100.0
Net income from hedge relationships	37 · 155	86	−5	91	>100.0
Balance of other operating income/expenses	38 · 155	82	1	81	<−100.0
Provisions for losses on loans and advances	39 · 155	1,656	−61	1,717	>100.0
General administrative expenses	40 · 156	605	435	170	39.1
Impairments on goodwill and DEPFA's intangible assets	41 · 156	2,482	—	2,482	>100.0
Balance of other income/expenses	42 · 156	−47	55	−102	<−100.0
thereof: Additions to restructuring provisions		229	27	202	>100.0
Pre-tax profit		**−5,375**	**587**	−5,962	<−100.0
Taxes on income	43 · 157	86	130	−44	−33.8
thereof: Deferred taxes on capitalised losses carried forward relating to other periods		84	−55	139	>100.0
Effect from revaluation according to corporate tax reform act		—	25	−25	−100.0
Net loss/income		**−5,461**	**457**	−5,918	<−100.0
attributable to:					
Equity holders (consolidated profit from the parent company)		−5,461	457	−5,918	<−100.0
		−5,461	**457**	−5,918	<−100.0

Earnings per share

in €	Note · page	2008	2007
Basic earnings per share	45 · 159	−25.85	3.01
Diluted earnings per share	45 · 159	−25.85	3.01

Balance Sheet as of 31 December 2008

Assets

in € million	Note · page	31.12.2008	31.12.2007	Change in € million	Change in %
Cash reserve	7 · 143, 46 · 160	1,713	10,654	−8,941	−83.9
Trading assets	8 · 143, 47 · 160	17,287	20,552	−3,265	−15.9
Loans and advances to other banks	9 · 143, 48 · 160	49,409	51,975	−2,566	−4.9
Loans and advances to customers	9 · 143, 49 · 160	222,048	213,173	8,875	4.2
Allowances for losses on loans and advances	10 · 144, 51 · 161	−2,277	−905	−1,372	<−100.0
Financial investments	11 · 144, 52 · 162	108,740	88,851	19,889	22.4
Property, plant and equipment	12 · 145, 53 · 165	32	68	−36	−52.9
Intangible assets	13 · 145, 54 · 166	40	2,555	−2,515	−98.4
Other assets	14 · 145, 55 · 167	17,396	9,870	7,526	76.3
Income tax assets	22 · 147, 56 · 167	5,266	3,381	1,885	55.8
Current tax assets		132	114	18	15.8
Deferred tax assets		5,134	3,267	1,867	57.1
Total assets		**419,654**	**400,174**	19,480	4.9

Equity and liabilities

in € million	Note · page	31.12.2008	31.12.2007	Change in € million	Change in %
Liabilities to other banks	15 · 146, 60 · 169	146,878	111,241	35,637	32.0
Liabilities to customers	15 · 146, 61 · 169	15,936	27,106	−11,170	−41.2
Liabilities evidenced by certificates	62 · 169	197,978	218,080	−20,102	−9.2
Trading liabilities	16 · 146, 63 · 169	17,236	14,835	2,401	16.2
Provisions	17 · 146, 64 · 170	352	144	208	>100.0
Other liabilities	18 · 146, 65 · 172	33,835	14,722	19,113	>100.0
Income tax liabilities	22 · 147, 66 · 172	4,163	2,357	1,806	76.6
Current tax liabilities		161	116	45	38.8
Deferred tax liabilities		4,002	2,241	1,761	78.6
Subordinated capital	19 · 147, 67 · 172	4,784	5,615	−831	−14.8
Liabilities		**421,162**	**394,100**	27,062	6.9
Equity attributable to equity holders		−1,508	6,074	−7,582	<−100.0
Subscribed capital	68 · 174	633	602	31	5.1
Additional paid-in capital		6,352	5,926	426	7.2
Retained earnings	68 · 174	1,085	943	142	15.1
Revaluation reserve		−4,117	−1,857	−2,260	<−100.0
AfS reserve	6 · 139	−3,115	−346	−2,769	<−100.0
Cash flow hedge reserve	6 · 139	−1,002	−1,511	509	33.7
Consolidated loss / profit		−5,461	457	−5,918	<−100.0
Profit carried forward from prior year		—	3	−3	−100.0
Minority interest in equity		—	—	—	—
Equity		−1,508	6,074	−7,582	<−100.0
Total equity and liabilities		**419,654**	**400,174**	19,480	4.9

Statement of Changes in Equity

Equity	Equity attributable to equity holders								Equity
				Revaluation reserve					
in € million	Subscribed capital	Additional paid-in capital	Retained earnings	AfS reserve [1]	Cash flow hedge reserve [1]	Consolidated profit	Profit carried forward from prior year	Minority interest in equity	
Equity at 1.1.2007	**402**	**3,319**	**641**	**−44**	**−1,416**	**542**	**1**	**—**	**3,445**
Change in value of financial instruments not affecting income	—	—	—	−326	−352	—	—	—	−678
Change in value of financial instruments affecting income	—	—	—	24	257	—	—	—	281
Reserve arising from currency and other changes	—	—	−40	—	—	—	—	—	−40
Net income/loss	—	—	—	—	—	457	—	—	457
Total changes in equity affecting income and not affecting income								**—**	**20**
Capital increase	201	2,621	—	—	—	—	—	—	2,822
Transaction costs of capital increase	—	−6	—	—	—	—	—	—	−6
Treasury shares	−1	−8	—	—	—	—	—	—	−9
Allocation/addition consolidated profit	—	—	342	—	—	−342	—	—	—
Profit carried forward	—	—	—	—	—	—	3	—	3
Distribution	—	—	—	—	—	−200	−1	—	−201
Equity at 31.12.2007	**602**	**5,926**	**943**	**−346**	**−1,511**	**457**	**3**	**—**	**6,074**
Equity at 1.1.2008	**602**	**5,926**	**943**	**−346**	**−1,511**	**457**	**3**	**—**	**6,074**
Change in value of financial instrument not affecting income	—	—	—	−3,262	797	—	—	—	−2,465
Change in value of financial instrument affecting income	—	—	—	493	−288	—	—	—	205
Reserve arising from currency and other changes	—	—	−217	—	—	—	—	—	−217
Net income/loss	—	—	—	—	—	−5,461	—	—	−5,461
Total changes in equity affecting income and not affecting income								**—**	**−7,938**
Capital increase	30	420	—	—	—	—	—	—	450
Treasury shares	1	6	—	—	—	—	—	—	7
Allocation/addition consolidated profit	—	—	359	—	—	−359	—	—	—
Profit carried forward	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	−98	−3	—	−101
Equity at 31.12.2008	**633**	**6,352**	**1,085**	**−3,115**	**−1,002**	**−5,461**	**—**	**—**	**−1,508**

[1] Explanations in Note 6 · Page 139

The Management Board of Hypo Real Estate Holding AG will propose to the ordinary Annual General Meeting on 13 August 2009 that the net loss of € −7,223 million of Hypo Real Estate Holding AG in 2008, will be carried forward (in 2008 a dividend of € 101 million respectively € 0.50 per share was paid to the equity holders).

Cash Flow Statement[1)]

in € million	2008	2007
Net income/loss	**–5,461**	**457**
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to provisions for losses on guarantees and indemnities	1,659	–57
Write-downs and depreciation less write-ups on long-term assets	1,542	121
Change in other non-cash positions	3,297	5
thereof: Impairments on goodwill and DEPFA's intangible assets	2,482	—
Result from the sale of investments, property, plant and equipment	–89	–75
Other adjustments	–1,547	–3,277
Subtotal	**–599**	**–2,826**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Trading portfolio	5,656	702
Loans and advances to other banks	2,658	–121
Loans and advances to customers	–7,640	9,369
Other assets from operating activities	105	972
Liabilities to other banks	33,992	10,669
Liabilities to customers	–11,208	5,493
Liabilities evidenced by certificates	–21,873	–11,996
Other liabilities from operating activities	1,051	–2
Interest income received	11,864	9,583
Dividend income received	8	6
Interest expense paid	–12,564	–6,259
Taxes on income paid	–10	–156
Cash flow from operating activities	**1,440**	**15,434**
Proceeds from the sale of non-current assets	16,889	19,620
Payments for the acquisition of non-current assets	–26,275	–24,025
Proceeds from the sale of investments	2	—
Payments for the acquisition of investments	–129	–421
Cash flow from investing activities	**–9,513**	**–4,826**
Proceeds from capital increases	—	–14
Dividends paid	–101	–201
Subordinated capital, net	–766	597
Cash flow from financing activities	–867	**382**
Cash and cash equivalents at the end of the previous period	**10,654**	**648**
+/– Cash flow from operating activities	1,440	15,434
+/– Cash flow from investing activities	–9,513	–4,826
+/– Cash flow from financing activities	–867	382
+/– Effects of exchange rate changes and non-cash valuation changes	–1	–984
Cash and cash equivalents at the end of the period	**1,713**	**10,654**

[1)] Explanations in Note 72 · Page 176

Notes

1 General information

Hypo Real Estate Group offers commercial real estate financing, public and infrastructure finance. The holding company of the Hypo Real Estate Group is the listed **Hypo Real Estate Holding Aktiengesellschaft**, which is incorporated in the commercial register of the Amtsgericht (local court) Munich (HRB 149393) with the following registered office:
Unsöldstraße 2, 80538 München.

The shares of Hypo Real Estate Holding AG are traded on the stock exchange in Frankfurt / Main (Prime Standard) (ISIN: DE0008027707).

Accounting Policies

2 Principles

Hypo Real Estate Holding AG has prepared its consolidated financial statements for the period ended 31 December 2008 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). These financial statements are based on the IFRS rules, which have been adopted in European Law by the EU commission as part of the endorsement process; it is also based on the regulations of commercial law which are applicable in accordance with section 315a (1) HGB (German Commercial Code). With the exception of IAS 39, all mandatory IFRS rules have been completely endorsed by the EU. Certain regulations of IAS 39, relating to fair value hedge accounting for a portfolio hedge of interest risks, have not been endorsed. The Hypo Real Estate Group does not apply this type of hedge accounting. Therefore, the financial statements are accordingly consistent with the entire IFRS and also with the IFRS as applicable in the EU.

The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

If they are not inconsistent with the IFRS, the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungs legungs Standards Committee (DRSC) have been taken into account.

The Management Board of Hypo Real Estate Holding AG has prepared the consolidated financial statements on 28 March 2009 under the going-concern assumption. In preparing the consolidated financial statements, the Management Board is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The continuance of the Hypo Real Estate Holding AG as a going concern is dependent on the assumption that sufficient equity will be provided to the Hypo Real Estate Holding AG and their significant subsidiaries to fulfil regulatory capital requirements as well as to avoid a situation of sustained over-indebtedness. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries or the Hypo Real Estate Holding AG itself. Such liquidity support must be available until the Hypo Real Estate Holding AG and its significant subsidiaries are capable to raise sufficient liquidity via the money and capital market by themselves and the described restructuring plans are implemented as scheduled.

In order to ensure the continuance of the Hypo Real Estate Holding AG and its significant subsidiaries as a going concern it is thus necessary that

- the German Finanzmarktstabilisierungsfonds provides sufficient support in the form of equity,
- the German Finanzmarktstabilisierungsfonds and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance,
- refinancing with sustainable conditions via the money and capital markets occurs,
- the restructuring plans will be implemented as scheduled
- the responsible authorities do not take regulatory actions, and
- no legal caveats (especially EU legal action) will be successfully enforced.

On 28 March 2009, the financial market stabilisation fund confirmed to Hypo Real Estate Holding AG and Hypo Real Estate Bank AG that it intends to stabilise the Hypo Real Estate Group in a sustainable manner by way of adequate recapitalisation and, for this purpose, intends to acquire an equity participation in Hypo Real Estate Holding AG.

The precondition for the intended recapitalisation of the Hypo Real Estate Group by the financial market stabilisation fund is the acquisition of complete control (100 %) over Hypo Real Estate Holding AG by the financial market stabilisation fund or the Federal Government.

As a first step in the direction of recapitalising the Hypo Real Estate Group, the financial market stabilisation fund has agreed to acquire 20 million Hypo Real Estate Holding AG shares before the end of March 2009 for a price of € 3.00 per share, whereby shareholders' subscription rights will be excluded.

The Management Board of Hypo Real Estate Holding AG has provided a commitment to the financial market stabilisation fund that it will take the steps necessary for implementing the recapitalisation.

IFRS and interpretations applied for the first time as well as changes of standards and interpretations In financial year 2008 there were no material alterations or changes regarding the accounting and valuation methods applied in the consolidated financial statements compared with previous the year with the exception of the amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" published in October 2008.

On 13 October 2008, the IASB published an amendment of IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: Disclosures) which was endorsed by the EU on 16 October 2008. The amendments permit an entity in exceptional situations to reclassify assets out of the held-for-trading category into other categories which are not recognised at fair value through profit or loss. In addition, under certain conditions, held-for-trading assets and available-for-sale (AfS) assets are permitted to be reclassified into the category Loans and Receivables (LaR). Prior to 1 November 2008, any reclassifications could be made retrospectively with effect from 1 July 2008.

Hypo Real Estate Group identified assets, eligible under the amendments, for which at the reclassification date it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term and which had met the definition of loans and receivables according to IAS 39 (amongst others not quoted in an active market). The reclassified portfolios are disclosed under financial investments. In total the following assets were reclassified into the category loans and receivables:

Until 31 October 2008 Hypo Real Estate Group reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to € 3.5 billion and financial investments out of the category available-for-sale of € 76.1 billion. In addition, trading assets of € 0.7 billion were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

In November 2008 and March 2009, the IASB published clarifications to the amendments of IAS 39 and IFRS 7 "Reclassification of Financial Assets" regarding the effective date and the accounting treatment of embedded derivatives. Until now, both clarifications are not endorsed by the EU. The clarifications do not affect Hypo Real Estate Group as the Group has applied the amendments of IAS 39 and IFRS 7 even before published in accordance with these clarifications.

The interpretation IFRIC 11 (IFRS 2 – Group and treasury share transactions) has been applied for the first time in 2008. The interpretation addresses how to apply IFRS 2 to accounting for share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent). It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the parent's equity, should be accounted for as cash-settled or equity-settled in the entity's financial statements. There had been no impact on the existing incentive compensation programme of the Hypo Real Estate Group.

The interpretation IFRIC 12 (Service Concession Arrangements) addresses how service concession operators should apply existing IFRS. Service concession rights are arrangements whereby a government or other public sector entity, such as the grantor, grants contracts for the supply of public services – such as roads, airports, prisons, energy and water supply and distribution facilities – to private sector entities as operators. IFRIC 12 has no impact on the net assets, financial position and results of the Hypo Real Estate Group as the Group does not focus on this kind of business. When endorsed by the EU, the mandatory effective date (annual periods beginning on or after 1 January 2008) was changed to an entity's first financial year starting after 29 March 2009.

The interpretation IFRIC 14, applied for the first time in 2008, deals with the interaction between minimum funding requirements and the limit for measuring defined benefit assets and liabilities according to IAS 19. The interpretation sets general guidelines on how to determine the limit of the surplus that can be recognised as an asset. The interpretation also explains how statutory and contractual minimum funding requirements affect assets or liabilities of a plan. The interpretation would probably not have affected the existing plan assets of Hypo Real Estate Group.

Published IFRS and interpretations that are not yet mandatory and which were not subject to early adoption The following material new or amended standards and interpretations which are endorsed by the EU have not been applied earlier:

- IFRS 1 and IAS 27 (Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate)
- IFRS 2 (Share-based Payment: Vesting Conditions and Cancellations)
- IFRS 8 (Operating Segments)
- IAS 1 (Presentation of Financial Statements: A revised Presentation, revised 2007)
- IAS 23 (Borrowing Costs, revised 2007)
- IAS 32 and IAS 1 (Puttable Financial Instruments and Obligations Arising on Liquidation)
- IFRIC 13 (Customer Loyalty Programmes).

Moreover, the IASB initiated an annual improvements project and issued in May 2008 a collection of amendments to IFRSs. Most of the amendments are effective for annual periods beginning on or after 1 January 2009. The amendments will probably not have a material impact on the net assets, financial position and results of the Hypo Real Estate Group.

In May 2008, the IASB published amendments to IFRS 1 and IAS 27 dealing with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time. The amendments are effective for annual periods beginning on or after 1 January 2009 and will have no impact on the Hypo Real Estate Group.

The amendments to IFRS 2 clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement. The standard is effective for annual periods beginning on or after 1 January 2009. The amendments will probably not have a material impact on the Hypo Real Estate Group.

The standard IFRS 8 specifies how an entity should report information about its operating segments. The standard also sets out disclosure requirements about products and services, geographical areas and major customers. Currently, the management board manages three operating segments which also fulfil the requirements of IFRS 8 for operating segments. Therefore, apart from some additional disclosures, the initial application of IFRS 8 will not have a very significant impact on the segment reporting. This standard will be according to the effective date applied for the first time in annual financial statements for periods beginning on 1 January 2009.

IAS 1 (revised) mainly modifies the presentation of owner changes in equity and of comprehensive income and requires in certain circumstances the disclosure of the statement of financial position of two comparative periods. The standard is effective for annual periods beginning on or after 1 January 2009. The revised standard will change the structure of disclosure in the financial statements of Hypo Real Estate Group but will not affect the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

The revised IAS 23 regulates that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the acquisition or construction costs of that asset. Other borrowing costs are recognised as an expense. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Qualifying assets are of minor relevance for Hypo Real Estate Group. Therefore the standard will not have a material impact on the net assets, financial position and results of the Group. The standard is effective for annual periods beginning on 1 January 2009.

The amendments to IAS 32 and IAS 1 require to classify puttable financial instruments as equity when specific conditions are met. The standard is effective for annual periods beginning on or after 1 January 2009. Based on the current balance sheet positions, the amendment will probably not have a material impact for the Hypo Real Estate Group.

The interpretation IFRIC 13 addresses accounting by the entity that grants award credits to its customers. IFRIC 13 is effective for annual periods beginning on or after 1 July 2008. As Hypo Real Estate Group does not have such award credit programs, IFRIC 13 does not have an impact on the net assets, financial position and results of the Group.

Published IFRS and interpretations that are not yet endorsed by the EU In 2008, Hypo Real Estate Group has not applied the following amended standards and interpretations. These standards and interpretations are not yet endorsed by the EU:

- IFRS 3 (Business Combinations, revised 2008)
- IFRS 7 (Improving Disclosures about Financial Instruments)
- IAS 27 (Consolidated and Separate Financial Statements)
- IAS 39 (Financial Instruments: Recognition and Measurement: Eligible Hedged Items)
- IFRIC 15 (Agreements for the Construction of Real Estate)
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)
- IFRIC 17 (Distributions of Non-cash Assets to Owners)
- IFRIC 18 (Transfer of Assets from Customers).

IFRS 3 (revised) reconsiders the application of acquisition accounting for business combinations. Major changes relate to the measurement of non-controlling interests, the accounting for business combinations achieved in stages as well as the treatment of contingent consideration and acquisition-related costs. The standard should be applied prospectively for annual periods beginning on or after 1 July 2009. The impact for the Hypo Real Estate Group is dependent on future business combinations.

The amendment of IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. The introduced three-level hierarchy for fair value measurements within IFRS 7 is now identical to the hierarchy in FASB Statement of Financial Accounting Standards No. 157 “Fair Value Measurements”. The amendment is effective for annual periods beginning on or after 1 January 2009. The application of the amended standard will impact the Hypo Real Estate Group such that the Group will provide enhanced and more extensive disclosures about financial instruments.

Major changes of IAS 27 relate to the accounting for transactions which do not result in a change of control as well as to those leading to a loss of control. The standard is prospectively effective for annual periods beginning on or after 1 July 2009. The impact for the Hypo Real Estate Group is dependent on future transactions.

The amendment of IAS 39 clarifies how the existing principles underlying hedge accounting should be applied. Addressed are the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk. The amendment is effective for annual periods beginning on or after 1 July 2009. No material impacts on the hedge relationships of the Hypo Real Estate Group are expected.

The interpretation IFRIC 15 clarifies whether IAS 11 or IAS 18 should be applied to particular real estate transactions. IFRIC 15 focuses on real estate that is marketed while construction is still in progress. As Hypo Real Estate Group basically does not undertake such transactions, the interpretation will not have an impact on the Group. The interpretation shall be applied for annual periods beginning on or after 1 January 2009.

The interpretation IFRIC 16 addresses the nature of the hedged risk when hedging a net investment in foreign operations and where in a group the hedging instrument can be held. As Hypo Real Estate Group does not hedge its net investment in foreign operations, the interpretation will not have an impact. IFRIC 16 shall be applied for annual periods beginning on or after 1 October 2008.

The interpretation IFRIC 17 provides guidance how to account distributions of non-cash assets. A liability should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. As Hypo Real Estate Group does not plan to distribute non-cash assets as a dividend, IFRIC 17 will not have an impact on the Group. The interpretation shall be applied for annual periods beginning on or after 1 July 2009.

The interpretation IFRIC 18 clarifies the requirements for agreements in which an entity receives from a customer cash or an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The interpretation shall be applied for annual periods beginning on or after 1 July 2009. IFRIC 18 will not have an impact on Hypo Real Estate Group as the Group does not offer such supply of goods or services.

Declaration on German Corporate Governance Code Hypo Real Estate Holding AG has published the declaration on the German Corporate Governance Code on its corporate website (www.hyporealestate.com) in accordance with section 161 AktG (Companies Act).

Consolidated financial review The consolidated financial review meets the requirements of section 315 (1) and (2) HGB (German Civil Code) and DRS 15. It comprises a report on the business and conditions, a report on the results of operations, net assets and financial position, a report on related party transactions, a report of significant events after the 31 December 2008, and an outlook report as well as a risk report. The risk report contains information which, under IFRS 7, is required to be disclosed (especially in the chapters Credit Risk, Market Risk and Liquidity Risk). Events after the balance sheet date are described in the report of events after 31 December 2008 and the major events.

3 Consistency

The Hypo Real Estate Group applies accounting policies consistently in accordance with the framework of IFRS as well as IAS 1 and IAS 8. In principal, in financial year 2008 no accounting policies for recognition and measurement were changed. The amendments of IAS 39 published by the IASB in October 2008 and the application in the Hypo Real Estate Group is described in Note 2 "Principles". The position impairments on goodwill and DEPFA's intangible assets was added to the income statement. In comparison to the previous year Hypo Real Estate Group did not adjust its disclosure of pre-tax profit/loss by special effects. Moreover, for financial year 2008 the regulatory capital and the regulatory indicators were calculated on the basis of the German Solvency Regulations (SolvV) instead of the previous disclosure according to BIS.

4 Uniform consolidated accounting

The individual financial statements of the consolidated domestic and foreign companies are incorporated in the consolidated and financial statements of Hypo Real Estate Holding AG, using uniform accounting and valuation principles.

5 Consolidation

Hypo Real Estate Holding AG and subsidiaries (including special-purpose entities)	Fully consolidated		Not fully consolidated (due to immateriality/ not to be consolidated according to SIC-12)		
	Total	Thereof special-purpose entities	Total	Thereof special-purpose entities	**Total**
1.1.2008	**72**	**37**	**51**	**23**	**123**
Additions	12	10	3	—	15
Disposals	9	2	6	3	15
Merger	1	—	3	—	4
31.12.2008	**74**	**47**	**45**	**20**	**119**

Associated companies and other investments	Associated companies				
	Valued using equity method	Not valued using equity method (due to immateriality)	Total	Other investments	**Total**
1.1.2008	**1**	**9**	**10**	**11**	**21**
Additions	—	4	4	—	4
Disposals	1	—	1	—	1
31.12.2008	**—**	**13**	**13**	**11**	**24**

These financial statements set out a list of "shareholdings" in the chapter "Holdings". In this list, the subsidiaries are structured on the basis of whether or not they are consolidated. Other shareholdings are also listed. All fully consolidated companies have prepared their financial statements basically for the period ended 31 December 2008.

The balance sheet effects of the contractual relations between the Group companies and the subsidiaries which are not consolidated are set out in the consolidated financial statements. The pooled results of the subsidiaries, which have not been consolidated in view of their minor significance, total € 0 million. Net losses are almost completely included in the Group financial statement by depreciation on investments, provisions and profits transferred. The pooled total assets of the non-consolidated subsidiaries account for 0.02 % of the Group total assets. The shares in the non-consolidated companies are shown as AfS financial investments.

The following newly established or existing subsidiaries have been included in the group of consolidated companies:

Consolidated subsidiaries	Equity interest (in %)	Date of acquisition accounting / first-time consolidation
Quadra Realty Trust, Inc., New York	100.00	14.3.2008
Liffey Belmont I LLC, Wilmington	100.00 (Special-purpose entity)	23.5.2008
Liffey Belmont II LLC, Wilmington	100.00 (Special-purpose entity)	23.5.2008
Liffey Belmont III LLC, Wilmington	100.00 (Special-purpose entity)	23.5.2008
Sirrah Funding I Ltd., Dublin	— (Special-purpose entity)	10.7.2008
E.L.A.N. Ltd, St. Helier, Jersey	— (Special-purpose entity)	4.8.2008
Xenon Structured Funding Ltd., Dublin	— (Special-purpose entity)	21.8.2008
Delta SPARK Ltd., Dublin	— (Special-purpose entity)	29.9.2008
Liffey NSYC LLC, Wilmington	100.00 (Special-purpose entity)	14.10.2008
Sirrah Funding II Ltd., Dublin	— (Special-purpose entity)	31.10.2008
Sirrah Funding III Ltd., Dublin	— (Special-purpose entity)	14.11.2008
Hypo Real Estate Systems GmbH, Stuttgart	100.00	31.12.2008 (retrospectively as of 1.1.2008)

On 29 January 2008, Hypo Real Estate Capital Corporation, New York, a wholly owned subsidiary of former Hypo Real Estate Bank International AG, Munich, and Quadra Realty Trust, Inc., New York, announced the signing of a merger agreement. In accordance with this agreement, Hypo Real Estate Capital Corporation through its special-purpose subsidiary HRECC Merger Sub Inc., which had been formed for such purposes of this transaction, made a tender offer regarding the outstanding shares of 65.3 % in Quadra Realty Trust, Inc., which it did not own, for a price of US $ 10.6506 per share in cash. With the completed tender offer, Quadra Realty Trust, Inc., announced an additional dividend of US $ 0.3494 (a total of US $ 9 million). Therefore, each outstanding Quadra shareholder received US $ 11.00 in the aggregate for each Quadra share. On the date of expiration of the tender offer (12 March 2008, midnight) more than 89 % of the shares owned by outstanding shareholders of Quadra Realty Trust, Inc., had been tendered which resulted in Hypo Real Estate Capital Corporation holding more than 90 % of the shares of Quadra Realty Trust, Inc., through its wholly owned subsidiary HRECC Merger Sub Inc. Therefore, with effect from 14 March 2008 (4:01 p.m. EST), Quadra Realty Trust, Inc., could be merged with HRECC Merger Sub Inc. and is since then a wholly owned subsidiary of Hypo Real Estate Capital Corporation Inc. The transaction has now been completed. In total the acquisition price amounted to US $ 184 million. Previously Quadra Realty Trust, Inc., was valued using the equity method; since 14 March 2008 it is fully consolidated. Quadra Realty Trust, Inc., is a company which invested primarily in commercial real estate financing and similar products. An income after transaction costs of € 22 million shown in net income from financial investments resulted from the first-time consolidation as Hypo Real Estate Group's interest in the net fair value of the recognised identifiable assets, liabilities and contingent liabilities exceeded the costs of the business combination. Quadra Realty Trust, Inc., had assets of US $ 700 million at the date of initial consolidation. Quadra Realty Trust, Inc., realised a pre-tax profit of € –1 million in financial year 2008 and since initial consolidation until 31 December 2008 of € 0 million.

The initially consolidated special-purpose entities Liffey Belmont I LLC, Wilmington, Liffey Belmont II LLC, Wilmington, Liffey Belmont III LLC, Wilmington, and Liffey NSYC LLC, Wilmington, possess properties in the USA which were acquired as part of salvage acquisitions. At initial consolidation the book value of the salvage acquisitions amounted to US $ 83 million in total and at 31 December 2008 to US $ 76 million. The properties are shown under other assets instead of loans and advances, as they are to be sold if a favourable market opportunity arises. The initial consolidation has not resulted in any other major effects in the income statement or balance sheet.

The six special-purpose vehicles E.L.A.N. Ltd, St. Helier, Jersey, Xenon Structured Funding Ltd., Dublin, Delta SPARK Ltd., Dublin, Sirrah Funding I Ltd., Dublin, Sirrah Funding II Ltd., Dublin, and Sirrah Funding III Ltd., Dublin, were initially consolidated. There was no material effect on net income resulting from the initial consolidation. E.L.A.N. Ltd. is a special-purpose entity and has US CMBS of approx. US $ 600 million in its portfolio. In order to prevent an emergency sale, involving significant losses, of these performing assets, Hypo Real Estate Bank AG acquired a further tranche issued by the special-purpose vehicle and thus received the majority of risks and opportunities in accordance with SIC-12. Xenon Structured Funding Ltd. was used for lending. The initial consolidation resulted merely in an asset swap of € 112 million in the balance sheet. Delta SPARK Ltd., Dublin, is a securitisation vehicle. Total assets increased by about € 600 million due to the initial consolidation. Sirrah Funding I Ltd., Sirrah Funding II Ltd. and Sirrah Funding III Ltd. purchased and securitised (€ 5.3 billion) assets from the Hypo Real Estate Group for funding purposes. The Hypo Real Estate Group holds all tranches issued by the special-purpose vehicles. The initial consolidation thus resulted in an asset swap in the balance sheet.

The information technology functions of Hypo Real Estate Group are concentrated in Hypo Real Estate Systems GmbH, Stuttgart. The significance of this company increases due to the planned IT investment programme. Therefore the company was initially consolidated at year end 2008 retrospectively as of 1 January 2008. The initial consolidation had no material effect on net income of the Group. Total assets increased by € 22 million, thereof mainly loans and advances to other banks and intangible assets. On the liability side mainly other liabilities increased.

The subsidiaries Immo Invest Gewerbe GmbH, Munich, Immo Invest Wohnwirtschaft GmbH, Munich, and GGV Gesellschaft für Grundbesitzverwaltung und Immobilienmanagement mbH, Munich, are not consolidated due to considerations of materiality; in the third quarter of 2008, they were merged with their parent company Hypo Real Estate Bank AG, Munich. This has not resulted in any significant impact on the income statement or balance sheet of the Group.

The following companies were deconsolidated in 2008:
- DEPFA International Holdings GmbH i.L., Eschborn
- Isar Gotham West 38th Street LLC i.L., New York
- Collineo Asset Management USA, Inc., New York
- Hypo Capital Markets, Inc., New York
- Green Finance Srl, Rome
- R-ESTATE Germany-6 GmbH, Frankfurt
- Collineo Asset Management GmbH, Dortmund
- DEPFA Zweite GmbH i.L., Eschborn
- Nebra Hold One Ltd. i.L., Dublin

The entities DEPFA International Holdings GmbH i.L., Eschborn, and Isar Gotham West 38th Street LLC i.L., were liquidated on 9 January 2008 and 24 January 2008. The assets belonging to the companies were sold in financial year 2007, and the deconsolidation accordingly did not have any significant impact on the income statement or the balance sheet. The companies Collineo Asset Management USA, Inc., New York, and Hypo Capital Markets, Inc., New York, were deconsolidated because they were liquidated on 16 June 2008 and 19 June 2008 respectively. The assets belonging to the companies had previously been transferred to DEPFA BANK plc, and the deconsolidation processes accordingly did not have any major impact on the income statement or the balance sheet. The special-purpose vehicle, Green Finance Srl, Rome, was liquidated after the issuer retired the securities which Green Finance Srl, Rome, had held. The deconsolidation resulted in a profit of € 4 million. The special-purpose entity R-ESTATE Germany-6 GmbH, Frankfurt, was originally set up to (synthetically) securitise own risks of credit transactions. With the implementation of Basle II the risk relief omitted and the Hypo Real Estate Group called the issued credit-linked notes and credit default swaps. The cancellation and deconsolidation caused neither income nor expenses.

The subsidiary Collineo Asset Management GmbH, Dortmund, was sold to family-owned bank group Sal. Oppenheim jr. & Cie. retrospectively as of 1 January 2008. The dividend paid in financial year 2008 for the business year 2007 in the amount of € 3 million is entitled to Hypo Real Estate Group. The loss from the deconsolidation amounts to € 12 million taking into account the dividend and the derecognition of goodwill as per the relative comparison of company values of € 10 million. The volume of assets of Collineo Asset Management GmbH, Dortmund, amounted to € 16 million as of 31 December 2007, thereof loans and advances to customers and to other banks of € 10 million and intangible assets of € 6 million on the asset side as well as accruals of € 1 million, tax provisions of € 1 million and equity of € 14 million on the liability side. The pre-tax profit of the company amounted to € 1 million in the first nine months 2008. DEPFA Zweite GmbH i.L., Eschborn, had been inactive for several years. At the deconsolidation date it did not contain any assets. Nebra Hold One Ltd. i.L., Dublin, had never been an active company. It also did not contain any assets at deconsolidation date.

With effect from 31 March 2008 Hypo Public Finance Bank, Dublin, merged with its parent company DEPFA BANK plc, Dublin, by way of a section 33 scheme in accordance with the Irish Central Bank Act 1971. All Irish assets of Hypo Public Finance Bank were thus essentially transferred to DEPFA BANK plc. Hypo Public Finance Bank will continue to exist as a legal entity and will retain some assets in its balance sheet. The internal merger under Irish law did not have any impact on the net assets, financial position and results of operations of the Group.

The merger of former Hypo Real Estate Bank International AG into Hypo Real Estate Bank AG became effective upon registration in the Commercial Register at the Munich local district court on 27 November 2008, with retrospective effect from 1 January 2008. The internal merger did not have any impact on the net assets, financial position and results of operations of the Group.

Consolidation principles At the acquisition date the costs of a business combination are allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria according to IAS 3.37 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised are accounted as goodwill or as an excess if acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities in accordance with IFRS 3.51-57. If the interest in net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of business combination the acquirer shall reassess the identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognise immediately in profit or loss any excess remaining after reassessment.

Business relations within the group of consolidated companies are netted with respect to each other. Intercompany results attributable to internal transactions are eliminated.

6 Financial instruments

According to IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition Hypo Real Estate Group recognises a financial asset or a financial liability on its balance sheet when, and only when, it becomes party of the contractual provisions of the financial instrument.

In principle, the purchases or sales of financial instruments is accounted for at trade date. Premiums and discounts appear in the position net interest income and similar income for the accounting period in question. In accordance with the primary derecognition concept of IAS 39, a financial asset has to be derecognised when all risks and rewards have mainly been transferred. If the main risks and rewards associated with ownership of the transferred financial asset are neither transferred nor retained, and if the power of disposal continues to be exercised over the transferred asset, the company has to recognise the asset to the extent of the supposed continuing involvement. There are no transactions within Hypo Real Estate Group which result in partial derecognition due to a continuing involvement.

In case of repurchase agreements and synthetic securitisations the assets transferred do not qualify for derecognition because derecognition criteria of IAS 39 are not fulfilled.

Categories pursuant to IAS 39 Initially, when a financial asset or financial liability is recognised, it is measured at its fair value.

For subsequent measurement according to IAS 39, all financial instruments have to be classified according to this standard, to be recognised in the balance sheet and to be measured according to its categorisation:

Held-for-trading A financial asset or a financial liability is held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or
- a derivative (except for a derivative that is a designated and effective hedging instrument).

Held-for-trading financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. Held-for-trading financial instruments are stated under trading assets and trading liabilities. Interest and dividend income as well as the refinancing costs for the trading instruments are shown in net trading income.

If there is a difference between transaction price and market value at trade date and the difference results from unobservable data that have a significant impact on the valuation of a financial instrument, the difference (so-called day one profit) is not recognised immediately in the income statement but is recognised over the life of the transaction. The remaining difference is treated directly in the income statement when the inputs become observable, when the transaction matures or is closed out.

Designated at fair value through profit or Loss (dFVTPL) If certain conditions are satisfied, financial assets or liabilities can be classified at their fair value through profit or loss when they are initially stated. A designation can be made if the use of the valuation category means that a recognition and valuation inconsistency is either avoided or considerably reduced, and management and performance measurement of a portfolio of financial instruments are based on the fair values or if the instrument contains a separable embedded derivative. The Hypo Real Estate Group classifies financial assets under the dFVTPL category only for the first two cases. As of 31 December 2008, only fixed-income securities and loans and advances are held in the category dFVTPL. Financial liabilities are not allocated to this category. The portfolio of fixed-income securities and loans and advances is managed on fair value basis. In addition, open interest risk positions of the portfolio are to a large extent closed by hedging derivatives. Because changes in the value of derivatives under IAS 39 in principle have to be recognised in profit or loss, the designation of fixed income securities and loans and advances under the category dFVTPL will avoid inconsistency in terms of valuation. As a result of the designation of fixed income securities and loans and advances, the opposite movements relating to the hedged risk in the income statement cancel each other to a large extent. The accounting treatment is accordingly consistent with risk management and the investment strategy.

dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. The amount of change, during the period and since initial recognition, in the fair value of the loan and advance that is attributable to changes in the credit risk of the financial asset is disclosed in the notes. The amount is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risks. Hence, the amount resulting from credit risk is the difference between the total change of fair value and the change attributable to market risks. Because financial liabilities are not designated in the category dFVTPL, the Hypo Real Estate Group does not have any effect resulting from the instruments being valued with the own current credit risk. The fixed income securities under the category dFVTPL are stated under the item of financial instruments, the loans and advances under loans and advances to customers. Interest income from the securities and loans and advances is shown under the position net interest income and similar income. The changes in value to be recognised in profit or loss (net gains and net losses from fair value option) are stated under the line net income from hedge relationships in the same way as the changes in value of the corresponding derivatives.

Held-to-maturity (HtM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that are quoted on an active market and that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost.

In the past, the Hypo Real Estate Group has used the HtM category. As a result of the changed intention of the Hypo Real Estate Group of not necessarily holding the financial investments to maturity the entire portfolio of HtM investments was reclassified as of 1 July 2007 in accordance with IAS 39.51 into the category AfS. In financial year 2008, no financial assets were classified as HtM.

Loans and receivables (LaR) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include bonded notes.

Loans and receivables are recognised in the positions loans and advances to banks, loans and advances to customers and financial investments, and are measured at amortised cost. Interest income from loans and receivables are shown in net interest income and similar income. Market price related net gains and net losses attributable to prepayment penalties and selling of loans and advances to customers and of loans and advances to banks are shown under the position net interest income and similar income. Such net gains and net losses are shown in net income from financial investments for financial investments. Reductions in value due to credit standing factors are shown under provisions for losses on loans and advances respectively in net income from financial investments for financial investments.

Available-for-sale (AfS) assets are those non-derivative financial assets that are designated as available for sale and which are not categorised as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Hypo Real Estate Group only categorises securities as AfS but not loans and advances.

AfS financial assets are measured at fair value. Changes in fair value are recognised in a separate item of equity (AfS reserve) not affecting income until the asset is sold, withdrawn or otherwise disposed or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., so that the cumulative loss previously recorded under equity is now taken to the income statement. If the objective evidence for the impairment of an AfS debt instrument drops out, the impairment has to be reversed to the income statement. On the other hand, impairments for an AfS equity instrument which have been recognised in the income statement are not permitted to be reversed and taken to the income statement.

AfS financial assets are mostly disclosed under financial investments. Interest income from AfS assets is stated under the position net interest income and similar income. Net gains and net losses generated by the disposal of AfS financial instruments as well as by changes in value as a result of impairment or write-ups to be recognised in profit or loss are shown under net income from financial investments.

Financial liabilities at amortised cost are those non-derivative financial liabilities that are not classified at fair value through profit or loss.

Financial liabilities at amortised cost are measured at amortised cost. Financial liabilities at amortised cost that are not securitised are recognised in the positions liabilities to other banks and liabilities to customers. If these financial liabilities are securitised and not subordinated, they are disclosed in liabilities evidenced by certificates. Subordinated liabilities are shown in subordinated capital. Interest expenses from financial liabilities at amortised cost are shown under the position net interest income and similar income. In addition, the position net interest income and similar income includes net gains and net losses attributable to repurchases or withdrawals from financial liabilities at amortised cost before maturity.

Derivatives are measured at fair value. Changes in fair value are recognised in the income statement if the derivatives are not recognised in cash flow hedge accounting. The valuation resulting from stand-alone derivatives are shown in net trading income and from hedging derivatives in net income from hedge relationships. The interest from non-trading derivatives including hedging derivates is disclosed in the position net interest income and similar income. The cash inflow and cash outflow of these derivatives are netted. The interest from trading derivatives is shown under net trading income. In the balance sheet stand-alone derivatives are disclosed under trading assets and trading liabilities and hedging derivatives under other assets and other liabilities.

Outside the held-for-trading and dFVTPL category, embedded derivative financial instruments to be separated within a structured product are separated from the host contract and recognised as separate derivative financial instruments. The host contract is then accounted for in accordance with the categorisation made. The change in value arising from the separated derivatives that are recognised and measured at fair value is recognised in the income statement.

Classes IFRS 7 required disclosures according to classes of financial instruments. Hypo Real Estate Group mainly defined the IAS 39 measurement categories, irrevocable loan commitments, financial guarantees, hedging derivatives and cash reserve as classes.

Valuation methods Financial instruments which have to be measured at fair value are valued on the basis of stock market prices or other market prices, if existent. If a price is not available from an active market, observable market prices from comparable financial instruments were used. If prices from comparable financial instruments are not available, valuation models are used that base on observable market parameters. If these parameters are neither observable at the markets, the valuation of the financial assets is based on models with non-market-observable parameters. The used valuation models are market standard models. A description of these models and the products is given in the note “fair values of financial instruments”.

Impairment According to IAS 39.58 a financial asset must be tested for impairment. At each balance sheet date Hypo Real Estate Group assesses on a case-by-case basis whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence included:

- significant financial difficulties of the borrower
- overdue contractual payments of either principal or interest or other breaches of contract
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- renegotiations due to economic problems
- when available, the market price of the asset.

Two types of impairment allowances are in place: individual allowances and portfolio-based allowances. Allowances for loans and advances are disclosed in a separate account (allowances for losses on loans and advances) rather than directly reducing the carrying amount of the assets. The expense is shown under provisions for losses on loans and advances in the income statement. Individual allowances on AfS financial investments as well as individual allowances and portfolio-based allowances on LaR financial assets are directly deducted from the carrying amount of the assets. The expense is shown under net income from financial investments in the income statement. Where subsequent measurement of financial assets is based on fair value through profit or loss, an impairment is implied in the fair value.

Hypo Real Estate Group records an impairment on loans and advances as well as financial investments whose terms have been renegotiated if there is objective evidence for impairment.

In determining allowances on individually assessed accounts, the following factors are especially considered:

- Hypo Real Estate Group's aggregate exposure to the customer
- the amount and timing of expected interest and redemption payments
- the realisable value of collateral and likelihood of successful repossession
- the likely deduction of any costs involved in recovering amounts outstanding
- the market price of the asset if available.

Financial assets carried at amortised cost for which no evidence of impairment has been specifically identified on an individual basis are grouped according to their credit risk for the purpose of calculating portfolio-based allowances. This impairment covers losses which have been incurred but have not yet been identified on loans subject to individual assessment. The parameters used to determine portfolio-based provisions are checked regularly and adjusted if necessary. The portfolio-based allowances are determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics
- a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past
- the estimated period between impairment occurring and the being identified
- state of the current economic cycle.

Hedge accounting Hedging relationships between financial instruments are classified as a fair value hedge, a cash flow hedge or hedge of a net investment in a foreign operation in accordance with IAS 39. Hedging instruments are mainly interest rate derivatives, for example interest rate swaps and options. Mainly interest rate risks are hedged but also other types of risk, for instance currency risks.

Fair value hedge Under IAS 39, with a fair value hedge, a stated asset, liability, off-balance-sheet fixed obligation or a precisely designated part of such an asset, liability or obligation, is hedged against the risk of a change in fair value which is attributable to a specific risk and possibly have an effect on profit or loss for the period.

If the hedge of the fair value in the course of the reporting period satisfies the criteria of IAS 39.88, the hedge is stated in the balance sheet as follows:

- The profit or loss arising when the hedging instrument is revalued with its fair value (for a derivative hedging instrument) or the currency component of its carrying amount calculated in accordance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period.
- The carrying amount of an underlying transaction is adjusted by the profit or loss arising from the underlying transaction and attributable to the hedged risks, and is recognised in profit or loss for the period. This is applicable if the underlying transaction is otherwise stated using the costs of purchase. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the underlying transaction is an available-for-sale (AfS) financial asset. The amortisation of the hedge adjustment is started at dedesignation of the hedge relationship.

The Hypo Real Estate Group uses fair value hedge accounting for presenting micro-hedge relationships. Fair value hedge accounting is not used for a portfolio of interest risks. Ineffectiveness within the range permitted under IAS 39 is shown in the line net income from hedge relationships. For measuring effectiveness mainly the regression analysis is used. The dollar offset method is applied for quantifying the ineffectiveness. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying amount of the hedged item at that point and the value at which it would have been carried, had the hedge never existed (the unamortised fair value adjustment), is amortised to the income statement over the remaining term of the original hedge. If the hedged item is derecognised, e.g. due to sale or repayment, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge According to IAS 39, a cash flow hedge hedges the risk inherent with fluctuating payment streams which is attributable to a certain risk associated with the stated asset, the stated liability (for instance some or all future interest payments of a variable-interest debt), the risk associated with a future transaction (expected to occur with a high degree of probability) and might have an effect on profit or loss for the period.

Cash flow hedge accounting recognises derivatives which are used for hedging the interest rate risk as part of asset/liability management. For instance, future variable interest payments for variable interest receivables and liabilities are swapped for fixed payments primarily by means of interest rate swaps.

Hypo Real Estate Group uses the cash flow hedge model mainly for hedging interest risks on a portfolio basis and just selectively for micro cash flow hedge relationships. For that no planned transactions were recognised for the first time at year end because the occurrence was not regarded as probable anymore. The following derecognition from equity amounted to € 5 million and was shown in net interest income.

Under cash flow hedge accounting, hedging instruments are stated with their fair value. The valuation result has to be broken down into an effective and an ineffective part of the hedge relationship.

The effective part of the hedging instrument is recognised in a separate item of equity without any impact on earnings (cash flow hedge reserve). The inefficient part of the hedging instrument is recognised in profit or loss in the net income from hedge relationships.

A hedging relationship is deemed to be effective if, at the beginning and throughout the entire duration of the transactions, changes in the payment streams of the underlying transactions are balanced almost completely (range of 80 % to 125 %) by changes in the payment streams of the hedging instruments. For the purpose of establishing whether a specific part of the hedging instrument is effective, the future variable interest payments from the receivables and liabilities to be hedged are compared quarterly for the financial statements with the variable interest payments from the interest derivatives in detailed maturity bands. The dollar offset method or statistical methods (e.g. regression analysis) are used to measure efficiency.

In those periods in which the payment streams of the hedged underlying transactions have an impact on profit or loss for the period, the cash flow hedge reserve is released in the income statement. If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in equity remains there until the committed or forecast transaction occurs or is no longer expected to occur, at which point it is transferred to the income statement.

Hedge of a net investment in a foreign operation A net investment hedge is a hedge of the foreign currency exposure on a net investment in a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The Hypo Real Estate Group does not hedge a net investment in a foreign operation as of 31 December 2008.

7 Cash reserve

Cash reserve contains balances with central banks which are measured at cost.

8 Trading assets

Trading assets comprise held-for-trading securities as well as positive market values of trading derivatives and of stand-alone derivatives of the bank book. In addition, borrowers' note loans and registered bonds as well as public sector bonds, to the extent they are used for trading purposes, are stated under other trading assets.

Trading assets are stated with their fair value. In the case of derivative and original financial transactions which are not listed on an exchange, internal price models based on cash value considerations and option price models are used as the basis of calculating the balance sheet value. Valuation and realised profits and losses attributable to trading assets are stated under net trading income in the income statement.

9 Loans and advances

Loans and advances to other banks and loans and advances to customers are disclosed under IAS 39 with their amortised cost of purchase if they are not categorised dFVTPL or AfS or an underlying transaction of a fair value hedge. dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. As of 31 December 2008, and as of 31 December 2007, Hypo Real Estate Group did not have loans and advances which are categorised as AfS.

Allowances for losses on loans and advances are shown under a separate line item provisions for losses in the income statement. All other income and expenses from loans and advances including net gains and net losses are shown under the position net interest income and similar income.

10 Allowances for losses on loans and advances and provisions for contingent liabilities and other commitments

Allowances for loans and advances are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. Allowances for loans and advances are calculated mainly on the basis of expectations with regard to loan defaults, the structure and quality of the loan portfolio as well as macro-economic parameters on an individual and portfolio basis.

Individual allowances For all recognisable default risks, the extent of the allowance for losses on loans and advances is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flow. The latter is calculated on the basis of the original financial effective interest rate in case of fixed income instruments and on the basis of the interest rate at impairment date in case of variable income instruments. Market rate changes do not have any effect in this respect. The increase in the present value of an adjusted receivable (so-called unwinding) which occurs over a period of time is shown as interest income.

Portfolio-based allowances Under IAS 39.64, loans for which there is no objective indication for the need of an allowance are grouped together to form risk-inherent portfolios. Portfolio-based allowances are set aside for these portfolios; these allowances are calculated on current events and information with regard to significant changes with detrimental consequences which have occurred in the technology, market, economic or legal environment, as well as historical default rates.

Allowances for losses on loans and advances are broken down into allowances relating to loans and advances and provisions for contingent liabilities and other commitments. An allowance relating to loans and advances is shown as a negative item on the assets side of the balance sheet, whereas a provision for contingent liabilities and other commitments is shown on the liabilities side of the balance sheet. In the income statement, all effects are shown in provisions for losses on loans and advances apart from time-related increases in the present value of impaired receivables which are shown under the position net interest income and similar income.

11 Financial investments

dFVTPL, LaR and AfS financial instruments as well as investment properties and shares in companies valued at equity are stated under financial investments.

dFVTPL and AfS financial assets are stated with their fair value. Changes in the fair value are taken to the income statement in case of dFVTPL financial assets. Changes in fair value of AfS financial assets are recognised in a separate item of equity (AfS reserve) not affecting income statement until the asset is sold, withdrawn, disposed of, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq. Therefore, the cumulative profit or loss previously recorded under equity is now taken to the income statement. Individual allowances on AfS financial assets are directly deducted from the carrying amount of the assets. Portfolio-based allowances on AfS financial assets must not be created for AfS financial assets. AfS financial assets which are hedged efficiently against market price risks are recognised within the framework of fair value hedge accounting. LaR financial investments are measured at amortised cost. Individual allowances and portfolio-based allowances on LaR financial investments are directly deducted from the carrying amount of the assets. As of 31 December 2008, Hypo Real Estate Group did not have any HtM financial assets.

Under IAS 40, land and buildings (either part of a building or both), which are held as financial investments for generating rental income and/or for capital appreciation, are stated with their fair value. The reports prepared in the year 2007 for establishing values are based on present value methods. The rental income generated by these financial investments is stated in the position net interest income and similar income (in the same way as the refinancing expenses). Changes of the fair value are shown in net income from financial investments. Hypo Real Estate Group does not hold any property interests held under operating leases and classified and accounted for as investment property.

Until the merger agreement the share in Quadra Realty Trust, Inc., New York, which was valued at equity, is shown under financial investments. The result from applying the equity method as well as the refinancing costs are shown in the position net interest income and similar income.

12 Property, plant and equipment

Property, plant and equipment are normally shown at cost of purchase or cost of production. The carrying amounts, if the assets are subject to wear and tear, are diminished by depreciation in accordance with the expected useful life of the assets. In addition, property, plant and equipment is tested at least annually for impairment. In the case of fittings in rented buildings, the contract duration taking account of extension options is used as the basis of this contract duration if it is shorter than the economic life.

Useful economic life in years	
Fixture in rental buildings	5 to 15
IT equipment (broad sense)	3 to 5
Other plant and operating equipment	3 to 25

If the value of property, plant and equipment has additionally been diminished, non-scheduled depreciation is taken to the income statement. If the reasons for the non-scheduled depreciation are no longer applicable, an amount is written back to the income statement, not exceeding the extent of the amortised cost of purchase for production.

Cost of purchase or cost of production, which is subsequently incurred, is capitalised if an additional economic benefit accrues to the Company. Measures which are designed to maintain the condition of the property, plant and equipment are recognised in the income statement of the financial year in which they arose.

13 Intangible assets

Goodwill, purchased and internally generated software, customer relationships and brand names are the main items disclosed as intangible assets.

According to IAS 36.10 (a), it is not permissible for goodwill to be depreciated. Instead, the goodwill is allocated to the cash-generating units. In line with Group steering, the business segments constitute the cash-generating units of the Hypo Real Estate Group. At the cash-generating unit level, goodwill is subject at least annually to an impairment review. Impairment is recognised if the carrying amount of the cash-generating unit exceeds the net realisable amount, defined as the higher of value in use and the fair value less costs to sell. The value in use is taken as the basis for the impairment test of goodwill at the cash-generating units.

Software and customer relationships are intangible assets with a finite useful life. Purchased software and customer relationships are stated at amortised cost of purchase. Hypo Real Estate Group capitalises internally generated software if it is probable that future economic benefits will flow to the Group and the expenses can be measured reliably. Expenses eligible for capitalisation include external directly attributable costs for materials and services as well as personnel expenses for employees directly associated with an internally generated software project. Software is written down in a straight-line basis over an expected useful life of three to five years, whereas customer relationships are written down on a straight-line basis over an expected useful life of 11 to 18 years (weighted average 15 years). In addition, intangible assets with a finite useful life have to be tested for impairment at least annually and whenever there is an indication that the intangible asset may be impaired.

Brand names are stated at amortised cost of purchase. They are not written down on a straight-line basis as they are assets with an indefinite useful life. However, intangible assets with an indefinite useful life have to be tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

As a consequence of the collapsed interbank market it was in September 2008 not possible anymore to conduct the business of DEPFA on the same basis as assumed at the acquisition of DEPFA in 2007. Therefore, Hypo Real Estate Group revises its business model, new business in all segments will be significantly reduced and the portfolio will be downsized. The future benefit which was originally used as the basis of valuing goodwill, software, customer relationships and brand names accordingly no longer exists. For this reason, Hypo Real Estate Group wrote down the goodwill of the cash-generating units Commercial Real Estate (€ 934 million), Public Sector & Infrastructure Finance (€ 1,212 million) and Capital Markets & Asset Management (€ 77 million). In addition, the capitalised brand names were written off (€ 80 million) as were customer relationships (€ 165 million) and acquired software of DEPFA (€ 14 million). The software was impaired due to a revised IT structure. The impairments were allocated to the Corporate Center. Other goodwill and intangible assets with indefinite useful life did not exist at year end.

14 Other assets

Other assets mainly contain positive fair values from derivative financial instruments (hedging derivatives and derivatives hedging dFVTPL financial instruments), salvage acquisitions and the capitalised excess over of qualified insurance for pension provisions. Salvage acquisitions are measured as inventories according to IAS 2 at the lower of cost of purchase and net realisable value.

15 Liabilities

Liabilities other than underlying transactions of an effective fair value hedge and which are not classified as dFVTPL are stated at amortised cost. Discounts and premiums are recognised on a pro rata basis. Interest-free liabilities are stated with their cash value. The Hypo Real Estate Group has not designated any liabilities under the category dFVTPL. All income and expenses from liabilities including net gains and net losses resulting from redemption of liabilities are shown under the net interest income and similar income.

16 Trading liabilities

Refinancing positions of the trading portfolio measured at fair value are stated under trading liabilities. In addition, trading liabilities also include negative market values of trading derivatives and of stand-alone derivatives of the bank book. Trading liabilities are recognised with their fair values. Valuation and realised profits and losses attributable to trading liabilities are stated under net trading income in the income statement.

17 Provisions

Under IAS 37.36 et seq., the best possible estimate is used for establishing the provisions for uncertain liabilities and contingent losses attributable to pending transactions. Long-term provisions are discounted.

Provisions for defined benefit plan pensions and similar obligations are calculated on the basis of actuarial reports in accordance with IAS 19. They are calculated using the "projected unit credit" method, and this method takes into account the cash value of the earned pension entitlements as well as the actuarial profits and losses which have not yet been redeemed. These are differences between the expected and actual factors (for instance a higher or lower number of invalidity or mortality cases than expected on the basis of the calculation principles used) or changes in the calculation parameters.

The actuarial profits and losses are dealt with using the so-called corridor method: a consideration in the income statement only has to be taken to the income statement in subsequent years if the total profits or losses which have accumulated as of the reference date for the financial statements exceed 10 % of the maximum figure calculated as the cash value of the earned pension entitlements and the assets of any external benefit facility. The effect to be treated in income statement is divided by the expected average remaining working lives of the employees participating in that plan.

The rate used for discounting defined benefit obligations is based on the long-term interest rate applicable for first-class fixed-income corporate bonds on the reference date for the financial statements.

Hypo Real Estate Holding AG and Hypo Real Estate Bank AG obtained insurance against the main risks arising from defined-benefit pension commitments as of 1 January 2005 by taking reinsurance classified as a "qualifying insurance policy" under IAS 19. New commitments of Hypo Real Estate Holding AG after 1 January 2005 were insured in the fourth quarter 2008. This reinsurance is pledged to the plan beneficiaries and constitutes plan assets under IAS 19. The pension obligations have to be netted with the plan assets by taking into account the ceiling according to IAS 19.58. In the event of surplus cover, the amount stated under other assets is equivalent to the negative balance of the following:

- the present value of the vested pension claims of defined benefit obligations as of the balance sheet date
- plus any actuarial profits (less any actuarial losses) which have not yet been recognised in the income statement
- less any past service cost which has to be recognised but which has not yet been taken into consideration
- less the fair value of the plan assets on the balance sheet date.

In accordance with IAS 19, the cost of defined-benefit pension commitments included under general administrative expenses in the position "Costs for retirement pensions and benefits" has been reduced by the expected income from the plan assets.

In conjunction with obligations of the defined-benefit pension commitments of DEPFA BANK plc and its subsidiaries taken over on 2 October 2007, existing fund assets do not constitute plan assets in accordance with IAS 19.

18 Other liabilities

Besides negative fair values from derivative financial instruments (hedging derivatives and derivatives hedging dFVTPL financial instruments), accrued liabilities are one of the items stated under other liabilities. This includes future expenditures, which are uncertain in terms of actual extent or timing, but less uncertain than is the case with provisions. These are liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance flexi time credits and vacation entitlements. The accrued liabilities have been stated in the amount likely to be utilised.

If the obligations listed at this point cannot be quantified more precisely on the reference date for the financial statements and if the criteria specified in IAS 37 for establishing provisions are satisfied, these items have to be stated under provisions.

19 Subordinated capital

In the event of bankruptcy or liquidation subordinated capital may only be repaid after all non-subordinated creditors have been satisfied. Subordinated capital of Hypo Real Estate encompasses subordinated liabilities, participating certificates outstanding and hybrid capital instruments. For some instruments of subordinated capital the holders participate in any net loss or consolidated net loss. In addition, the interest entitlement can be ceased or reduced under specific conditions. For other instruments the interest ceases only in case of a net loss which can be caught up depending on the structuring.

The subordinated capital instruments issued by Hypo Real Estate Group are financial liabilities according to IAS 32. Subordinated capital is measured at amortised cost. The amortised costs are the amount at which the financial liability is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any expected reduction of interest and/or principal payments.

By applying the effective interest method an expected reduction of the interest entitlement and/or an expected loss participation of the subordinated capital leads to a devaluation of the subordinated capital. The devaluation is disclosed as an interest income in the income statement. In the following years the present value of the adjusted allowances resulting over a period of time (unwinding) will result in an expense.

20 Share-based compensation

DEPFA BANK plc operates an incentive compensation programme under which share awards are made to employees (equity-settled share-based payment transactions). The fair value of employee services received is measured by reference to the fair value of the share award at the award date and is recognised as personnel expenses in the income statement over the vesting period with a corresponding credit to equity. At each balance sheet date, the entity revises its estimate of the number of shares that are expected to vest. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

As of 31 December 2008, other entities of Hypo Real Estate Group have not provided a commitment for any such types of compensation to members of the Management Board, Supervisory Board nor its employees.

21 Currency translation

Currency translation is carried out in accordance with the regulations of IAS 21. On the reference date for the financial statements, monetary items in a foreign currency are translated into the functional currency. The reporting currency is the Euro. Non-monetary items which were stated in a foreign currency using historical cost of purchase are stated using the exchange rate applicable at the point they were purchased.

Income and expenditures attributable to currency translation at the individual companies in the Group are normally shown in the income statement under “Balance of other operating income/expenses”.

In these consolidated financial statements, balance sheet items of the subsidiaries, if they do not prepare financial statements in Euros, are translated using the closing rates at reference date for the financial statements. For translating the expenses and income of these subsidiaries, the average rates are used. Differences resulting from the translation of the financial statements of the subsidiaries are treated without any impact on the income statement and are shown in movements in shareholders’ equity. The group of consolidated companies does not include any companies from high-inflation countries.

22 Taxes on income

Taxes on income are accounted for and valued in accordance with IAS 12. Apart from the exceptions defined in the standard, deferred taxes are calculated for all temporary differences for the values under IFRS and the tax values as well as for the differences resulting from uniform Group valuation within the Group and differences from the consolidation (balance sheet method). Deferred tax assets arising from non-utilised losses carried forward are calculated if necessary according to IAS 12.34 et seq.

Deferred taxes are calculated using the national tax rates which are expected at the time when the differences are balanced, as the concept of deferred taxes is based on the presentation of future tax assets or tax liabilities (liability method). The pay-out of the corporate income tax claim which was capitalised on 31 December 2006 has begun since 1 January 2008 over a period of ten years independently of a dividend payment. The interest-free claim had to be shown with the present value. A rate of 3.7% has been used for discounting purposes. Changes of the capitalised corporate income tax claims due to tax assessment notes for previous periods in the year 2008 were recognised accordingly in the income statement.

23 Non-current assets held for sale

In accordance with IFRS 5, non-current assets or disposal groups held for sale have to be shown on the balance sheet date at the lower of carrying amount and fair value less costs to sell. The assets have to be shown separately in the balance sheet. As of 31 December 2008 and of 31 December 2007, Hypo Real Estate Group does not own material non-current assets held for sale.

24 Future-related assumptions and estimation uncertainties

When the financial statements are being prepared, the Hypo Real Estate Group makes future-related assumptions as well as estimations, resulting in a considerable risk of a major change to the stated assets and liabilities becoming necessary during the next financial year.

Going concern The consolidated financial statements of Hypo Real Estate Holding AG is based on the assumption of going concern. The conditions of going concern are described in the forecast report.

Standards which are not the subject of early adoption New standards that are issued or existing standards, which have been revised and not the subject of early adoption, may result in changes in the accounting treatment and valuation as well as the statement of assets and liabilities when they are applied for the first time. The standards that are not the subject of early adoption are described in detail in note 2.

Allowances for losses on loans and advances The loan portfolio of the Hypo Real Estate Group is reviewed at least annually in order to identify any impairment losses on loans and advances. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the contractual ones. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the portfolio. The methods and assumptions concerning the assessments of the extent and timing of the payment streams are reviewed regularly to reduce any differences between estimated and actual defaults. In addition, the determination of portfolio-based provisions is based on a loss identification period as well as the expected loss based on statistical data.

Impairment on financial investments In 2008 no reliable market prices existed for the assessment of the majority of structured products and for other securities. These were measured on the basis of valuation models with observable market data. For this, the expected cash flows were discounted with the swaps curves allocated per kind of product, rating category and currency. The methods and assumptions concerning the assessments of the extent and timing of the payment streams are regularly checked in order to minimise the differences between estimated and actual defaults.

Fair values of original and derivative financial instruments The fair value of financial instruments that are not listed on active markets is calculated using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. For practical considerations, the valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments.

Embedded derivatives According to IAS 39.11, an embedded derivative has to be separated from the underlying contract and has to be valued separately if, in addition to other criteria, the economic features and risks of the embedded derivative are not closely related to the economic features and risks of the underlying agreement. The economic risks of the underlying contracts and embedded derivatives are assessed on the basis of measuring methods to evaluate the existence of an obligation to separate.

Hedge accounting Relations between underlyings and hedging instruments can be presented in hedge accounting. A relation only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are satisfied. One of these conditions is that the hedge has to be very efficient with regard to achieving compensation for the risks resulting from changes in the fair value or the cash flow in relation to the hedged risk, in line with the originally documented risk management strategy for this specific hedge.

The establishment of the effectiveness of the risk hedge and the assessment of the probability of occurrence of future cash flows depend on risk measuring methods, the parameters which are used and assumptions relating to the probability of occurrence. These methods and parameters are continuously developed in line with the risk management objectives and strategies, which means that a review in subsequent years may result in an assessment which differs from the original assessment.

Taxes on income The Hypo Real Estate Group is subject to a wide range of national tax regulations with regard to the calculation of taxes on income. In order to evaluate the actual tax burden, it is necessary to make estimates that are calculated with the knowledge existing as of the reporting date and closely related to the tax return prepared in the following financial year. In some countries, the current tax charges attributable to the current financial year can only be definitely finalised after the corresponding tax audit has been completed. The variances with regard to the estimated tax burden may have a positive or negative influence on the tax burden in future financial years.

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends on the restrictions set out in sections 8 (4) and 8c KStG as well as 10a GewStG. Deferred tax assets arising from losses carried forward are stated as far as it is likely that taxable income will be available to off set the non-utilised tax losses carried forward.

The extent of future payments of the corporate income tax claim has been calculated using the present-value method and an interest rate of 3.7 %.

Business combinations All business combinations shall be accounted for by applying the purchase method. The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria of IFRS 3.37 at their fair values. In financial year 2007, the consideration of the acquisition of DEPFA was done provisionally according to IFRS 3.62. When completing the initial accounting in 2008, no adjustments to the provisional values were necessary.

Goodwill acquired in a business combination represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being identified and separately recognised. Goodwill is subject at least annually to an impairment review. Unforeseen developments in business and sustainable strategy of growth can cause impairments of goodwill.

25 Notes to segment reporting by business segment (primary segmenting)

The **Hypo Real Estate Group (HREG)** has been divided into the three business segments Commercial Real Estate, Public Sector & Infrastructure Finance and Capital Markets & Asset Management. These segments are used as the basis of managing the Group. In segment reporting, these business segments are therefore defined as primary segments.

The business segment **Commercial Real Estate (CRE)** combines mainly the international and German businesses of the strategic, commercial real estate financing including customer derivatives from Hypo Real Estate Bank AG. The segment is split into four platforms: Germany, Europe, America and Asia.

The business segment **Public Sector & Infrastructure Finance (PS & IF)** pools mainly the Public Sector business of DEPFA BANK plc and its subsidiaries as well as DEPFA Deutsche Pfandbriefbank AG. In addition, the segment contains the Infrastructure and Asse-Based Finance portfolios of these financial institutions.

The business segment **Capital Markets & Asset Management (CM & AM)** pools the Capital Markets and the Asset Management business of the Group. The platform Capital Markets reflects the majority of trading assets and trading liabilities as well as income from securitisations and business with DEPFA customer derivatives. The platform Asset Management mainly consists of the business of Collineo Asset Management, Morrigan TRR Funding LLC and the positioning in guaranteed investments contracts (GIC) business.

The column **Corporate Center** includes consolidation transactions as well as the contributions to earnings of some portfolios like CDOs and MBS. In addition, it includes the contributions to earnings of the Corporate Centers and the Board. In addition the Corporate Center contains the non-operative segment results like the impairments on goodwill and DEPFA's intangible assets as well as the addition to provisions for the strategic realignment and restructuring of Hypo Real Estate Group.

Hypo Real Estate Group's segment reporting is based on its internal controlling instrument and management information system, which is prepared in accordance with IFRS. Transactions between segments are carried out on an arm's length basis. Income and expenses are shown such that they reflect the originating unit. The segments operate as autonomous companies with their own equity resources and responsibility for profits and losses. Revenues are allocated by portfolio structures. General administrative expenses are allocated to the correct segment according to causation. The cost-income ratio is the ratio of general administrative expenses and operating revenues, consisting of net interest income and similar income, net commission income, net trading income, net income from financial investments, the result of hedging relationships and the balance of other operating income /expenses.

In addition to the comparative figures, according to IAS 1.36, pro forma financial information is disclosed to make the comparison between financial year 2008 and 2007 easier. The pro forma financial information reports income as if DEPFA BANK plc had been part of the Hypo Real Estate Group since 1 January 2006.

26 Income statement, broken down by business segment

Income/expenses

in € million		CRE	PS & IF	CM & AM	Corporate Center	**HREG**
Operating revenues	2008	876	609	−506	−1,564	−585
	2007	963	247	—	−304	906
	pro forma 2007	963	834	19	−353	1,463
Net interest income and similar income	2008	756	730	73	74	1,633
	2007	760	178	62	105	1,105
	pro forma 2007	760	579	85	47	1,471
Net commission income	2008	95	−39	5	−29	32
	2007	152	20	30	−4	198
	pro forma 2007	152	43	44	−5	234
Net trading income	2008	−45	−124	−518	−322	−1,009
	2007	2	13	−50	−189	−224
	pro forma 2007	2	−18	−63	−195	−274
Net income from financial investments	2008	58	13	−61	−1,419	−1,409
	2007	36	33	−23	−215	−169
	pro forma 2007	36	205	−23	−212	6
Net income from hedge relationships	2008	—	26	−5	65	86
	2007	6	8	−19	—	−5
	pro forma 2007	6	29	−24	—	11
Balance of other operating income/expenses	2008	12	3	—	67	82
	2007	7	−5	—	−1	1
	pro forma 2007	7	−4	—	12	15
Provisions for losses on loans and advances	2008	1,066	420	—	170	1,656
	2007	66	—	1	−128	−61
	pro forma 2007	66	—	1	−128	−61
General administrative expenses	2008	155	75	32	343	605
	2007	180	47	53	155	435
	pro forma 2007	180	152	100	224	656
Impairments on goodwill and DEPFA's intangible assets	2008	—	—	—	2,482	2,482
	2007	—	—	—	—	—
	pro forma 2007	—	—	—	—	—
Balance of other income/expenses	2008	−5	−8	—	−34	−47
	2007	—	—	—	55	55
	pro forma 2007	—	—	—	−6	−6
thereof: Additions to restructuring provisions	2008	—	—	—	229	229
	2007	—	—	—	27	27
	pro forma 2007	—	—	—	27	27
Effects from DEPFA acquisition	2008	—	—	—	180	180
	2007	—	—	—	96	96
	pro forma 2007	—	—	—	—	—
Pre-tax profit	2008	**−350**	**106**	**−538**	**−4,593**	**−5,375**
	2007	**717**	**200**	**−54**	**−276**	**587**
	pro forma 2007	**717**	**682**	**−82**	**−455**	**862**

27 Key ratios, broken down by business segment

Key ratios

in %		CRE	PS & IF	CM & AM	**HREG**
Cost-income ratio (based on operating revenues)	2008	17.7	12.3	> 100.0	> 100.0
	2007	18.7	19.0	> 100.0	48.0
	pro forma 2007	18.7	18.2	> 100.0	44.8

28 Balance sheet figures, broken down by business segment

Assets and liabilities

in € million		CRE	PS & IF	CM & AM	Corporate Center	**HREG**
Total assets	31.12.2008	58,703	295,240	32,934	32,777	419,654
	31.12.2007	95,184	241,155	27,531	36,304	400,174
Total liabilities	31.12.2008	58,385	294,988	32,466	35,323	421,162
	31.12.2007	91,993	238,964	27,078	36,065	394,100

29 Key regulatory capital ratios (based on German Commercial Code [HGB]), broken down by business segment

The risk-weighted assets and the market risk positions as of 31 December 2008 were as follows:

Risk-weighted assets

in € billion		CRE	PS & IF	CM & AM	Corporate Center	**HREG**
Risk-weighted counterparty risk positions	31.12.2008[1)]	26.9	41.1	10.7	16.6	95.3
	31.12.2007[2)]	50.5	38.5	7.7	12.4	109.1

1) Including counterparty risks, weighted market risk positions and weighted operational risks; according to Basle II IRB approach for authorised portfolios, otherwise Basle II standardised approach
2) According to Principle I; including counterparty risks and weighted market risk positions

Market risk positions

in € million		CRE	PS & IF	CM & AM	Corporate Center	**HREG**
Currency risks	31.12.2008	63	–	1	–	64
	31.12.2007[1)]	20	–	–	–1	19
Interest rate risks	31.12.2008	–	–	282	–	282
	31.12.2007[1)]	17	–	411	–	428
Risks from equity securities/risks from options	31.12.2008	–	–	–	–	–
	31.12.2007[1)]	2	–	4	–	6
Total	31.12.2008	**63**	**–**	**283**	**–**	**346**
	31.12.2007[1)]	**39**	**–**	**415**	**–1**	**453**

1) According to Principle I

30 Employees, broken down by business segment

Employees

		CRE	PS & IF	CM & AM	Corporate Center	**HREG**
Employees	31.12.2008	214	280	124	1,168	1,786
	31.12.2007	338	336	157	1,169	2,000

31 Segment reporting by region (secondary segmenting)

Different regions are referred to as secondary segments. The Hypo Real Estate Group as of 31 December 2008 differentiates between the regions Germany, rest of Europe and America/Asia. The column "Corporate Center" includes consolidation transactions as well as the contributions to earnings of the non-strategic portfolios. In addition, it includes the contributions to earnings of the Corporate Centers and the Board. Allocation of values to regions is based on the location of the registered offices of the Group companies or their branches. The public finance, infrastructure finance, commercial real estate finance as well as the capital markets and asset management business are carried out in all regions.

Operating performance

in € million		Germany	Rest of Europe	America/Asia	Corporate Center	**HREG**
Operating revenues	2008	−935	111	422	−183	−585
	2007	524	480	206	−304	906
Provisions for losses on loans and advances	2008	1,233	271	152	—	1,656
	2007	151	—	1	−213	−61
General administrative expenses	2008	192	247	100	66	605
	2007	42	169	69	155	435
Operating profit/loss	2008	−2,360	−407	170	−249	−2,846
	2007	331	311	136	−246	532
Pre-tax profit	2008	−2,484	−473	155	−2,573	−5,375
	2007	350	291	137	−191	587

Cost-income ratio

in %		Germany	Rest of Europe	America/Asia	**HREG**
Cost-income ratio (based on operating revenues)	2008	> 100.0	> 100.0	23.7	> 100.0
	2007	8.0	35.2	33.5	48.0

Employees

		Germany	Rest of Europe	America/Asia	**HREG**
Employees	31.12.2008	853	595	338	1,786
	31.12.2007	858	767	375	2,000

Notes to the Income Statement

32 Net interest income and similar income

Net interest income and similar income, broken down by categories of income/expenses in € million	2008	2007
Interest income and similar income	**16,828**	**9,983**
Lending and money-market business	12,876	7,786
Fixed-income securities and government-inscribed debt	3,927	2,191
Equity securities and other variable-yield securities	2	2
Participating interests	6	—
Companies valued using the equity method	—	4
Subordinated capital	16	–
Others	1	—
Interest expenses and similar expenses	**15,195**	**8,878**
Deposits	6,605	2,614
Liabilities evidenced by certificates	8,496	5,574
Subordinated capital	—	194
Current result from swap transactions (balance of interest income and interest expenses)	94	496
Total	**1,633**	**1,105**

Interest margins in € million	2008	2007
Average volume of business	369,675	223,976
Based on average volume of business[1] (in %)	**0.41**	**0.49**

[1] Net interest income and similar income/average volume of business

Total interest income for financial assets that are not at fair value through profit or loss, amount to € 16.7 billion (2007: € 9.8 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to € 15.1 billion (2007: € 8.4 billion).

Net interest income and similar income includes income of € 37 million (2007: € 24 million) due to the increase in the present value of the adjusted allowances resulting over a period of time.

33 Net commission income

Net commission income in € million	2008	2007
Securities and custodial services	−9	−8
Lending operations and other service operations	41	206
Total	**32**	**198**

Net commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss. Commission income from trust and other fiduciary activities amount to less than € 1 million as was the case last year, with commission expenses at € 0 million (2007: € 0 million).

34 Net trading income

Net trading income in € million	2008	2007
From other equity instruments and related derivatives	—	5
From interest rate instruments and related derivatives	−97	−3
From credit risk instruments and related derivatives	−907	−229
From foreign exchange trading interest	−5	3
Total	**−1,009**	**−224**

The result for equity instruments and related derivatives is attributable to trading price-related transactions, and investment units, in particular. The result for interest instruments and related derivatives includes profits from trading interest-related transactions. Trading instruments in this context include debt securities and interest derivatives such as interest rate swaps. Trading with credit risks is reflected in the result of credit risk instruments and related derivatives. Credit default swaps are also utilised for this purpose.

Net trading income includes interest and dividend income totalling € 143 million (2007: € 644 million) and refinancing costs totalling € 158 million (2007: € 649 million) resulting from the balance of trading assets and trading liabilities.

35 Net income from financial investments

Net income from financial investments in € million	2008	2007
Income from financial investments	205	120
Expenses from financial investments	1,614	289
Total	**−1,409**	**−169**

Net income from financial investments consists of income from the sale of HtM investments, AfS investments, LaR investments and of investment properties together with changes in the value of such instruments that are to be recognised in the income statement. HtM investments were not held in 2008. This item also includes changes in the value of dFVTPL financial instruments and the related derivatives. Based on valuation categories, net income from financial investments is broken down as follows:

Net income from financial investments by IAS 39 categories in € million	2008	2007
Held-to-maturity financial investments	—	18
Available-for-sale financial investments	−350	−218
Loans-and-receivables financial investments	−1,099	—
Negative difference from business combination	23	—
Result from investment properties	17	31
Total	**−1,409**	**−169**

36 Combined valuation result from the CDO portfolio and similar products

Valuation result affecting income in € million	2008	2007
Synthetic CDOs	−395	−198
US-American	−251	−132
European	−144	−66
Cash CDOs	−846	−268
US-American	−703	−167
European	−213	−11
Model reserve	70	−90
MBS	−528	—
Total	**−1,769**	**−466**

The portfolio of collateralised debt obligations (CDOs) and similar structured products is reclassified from the measurement category AfS to LaR according to the amendment of IAS 39 and IFRS 7 published by the IASB on 13 October 2008. The European cash CDOs also contain credit-linked notes (CLNs) and credit swap options (CSOs). Furthermore it is a matter of importance for accounting whether CDOs are classified as cash structures or as synthetic structures.

Synthetic CDOs constitute embedded derivatives which have to be separated in accordance with IAS 39 – as clarified from the Institut der Wirtschaftsprüfer (IDW) in its position paper dated 10 December 2007 – and any changes in value have to be recognised in the income statement. Cash CDOs of the category loans and receivables are measured at amortised cost. If there is objective evidence for impairment the cash CDOs will be written off. The valuation is based on internal present-value models. In financial year 2007, a model reserve of € 90 million had been recognised in the income statement-related valuation result for uncertainty with regard to the assumptions and estimates which have been made on the valuation of collateralised debt obligations. In financial year 2008 the uncertainty with regard to the assumptions and estimates could be reduced. In consequence the model reserve could be released affecting the income statement by € 70 million.

37 Net income from hedge relationships

Net income from hedge relationships in € million	2008	2007
Result from fair value hedge accounting	163	11
Result from hedged items	11,387	3,045
Result from hedging instruments	−11,224	−3,034
Result from dFVTPL investments and related derivatives	−76	−16
Result from dFVTPL investments	404	−72
Result from derivatives related to dFVTPL investments	−480	56
Ineffectiveness from cash flow hedge accounting affecting income	−1	—
Total	**86**	**−5**

38 Balance of other operating income/expenses

Balance of other operating income/expenses in € million	2008	2007
Other operating income	120	26
Other operating expenses	38	25
Balance of other operating income/expenses	**82**	**1**

Other operating income mainly results from currency translation effects totalling € 96 million (2007: expenses of € 4 million). Rental income attributable to buildings in current assets (salvage acquisitions) was € 4 million, compared to € 9 million last year and the receipt of a contractual compensation payment for the year 2001 by DEPFA Deutsche Pfandbriefbank AG of € 4 million (income). The main component in other operating expenses is depreciation and other expenses attributable to buildings in current assets (salvage acquisitions) of € 16 million (2007: € 5 million). In addition the balance of other operating income/expenses does not contain any individual amounts of major significance.

39 Provisions for losses on loans and advances

Provisions for lending business in € million	2008	2007
Provisions for losses on loans and advances	1,655	−56
Additions	1,709	187
Releases	−54	−243
Provisions for contingent liabilities and other commitments	4	—
Additions	6	—
Releases	−2	—
Recoveries from write-offs of loans and advances	−3	−5
Total	**1,656**	**−61**

The development of allowances of individual allowances on loans and advances as well as portfolio-based allowances is shown in note allowances for losses on loans and advances.

40 General administrative expenses

General administrative expenses in € million	2008	2007
Personnel expenses	260	247
Wages and salaries	205	207
Social security costs	30	28
Pension expenses and related employee benefit costs	25	12
Other general administrative expenses	296	161
Depreciation/amortisation	49	27
On software and other intangible assets excluding goodwill	30	19
On property, plant and equipment	19	8
Total	**605**	**435**

The expenses of € 24 million (2007: € 15 million) for defined-benefit pension commitments included in “Pension expenses and related employee benefit costs” as of 31 December 2008 were reduced in accordance with IAS 19 by the expected income from the insurance policy which was mainly taken out in 2005 and which was classified as a “qualifying insurance policy” to the amount of € 12 million (2005: € 9 million).

Cost-income ratio in %	2008	2007
Cost-income ratio (based on operating revenues)	> 100.0	−48.0

41 Impairments on goodwill and DEPFA’s intangible assets

Impairments on goodwill and DEPFA’s intangible assets in € million	2008	2007
Goodwill	2,223	—
Software acquired	14	—
Customer relationships	165	—
Brand names	80	—
Total	**2,482**	**—**

Intangible assets with a limited useful economic life, such as software and customer relationships, have to be depreciated. In addition, an impairment test has to be carried out at least annually or if there are any indications of impairment for these assets as well as for intangible assets with an indefinite useful economic life, such as goodwill and brand names. Such an indication is the occurrence of significant changes with detrimental consequences for the Company in the extent or the way in which intangible assets are used or are expected to be used. In mid-September 2008, after the US investment bank Lehman Brothers had to apply for creditor protection, the interbank market collapsed almost completely. As a consequence of the collapsed interbank market, it was no longer possible to conduct the business of DEPFA with the same premises as assumed at the acquisition of DEPFA in October 2007. Therefore, Hypo Real Estate Group is revising its business model. Accordingly, new business in all segments will be significantly reduced and the portfolio will be downsized. The future benefit which was originally used as the basis of valuing the goodwill and other intangible assets accordingly no longer exists. For this reason, the goodwill was written down by € 2,223 million in the third quarter of 2008. In addition, the capitalised brand names were completely written off (€ 80 million) in the third quarter of 2008, as were customer relationships (€ 165 million) and the acquired software of DEPFA (€ 14 million). The software was impaired partly due to a revision of the IT structure.

42 Balance of other income/expenses

Balance of other income/expenses in € million	2008	2007
Other income	186	105
thereof: Effects from DEPFA acquisition	180	96
Other expenses	233	50
thereof: Other taxes	2	6
Additions to restructuring provisions	229	27
Balance of other income/expenses	**−47**	**55**

The balance of other income/expenses includes effects from the DEPFA acquisition. As of 31 December 2008, these effects were attributable to the mandatory convertible bond issued in August 2007 to finance the DEPFA acquisition. This mandatory convertible bond contained an embedded compound derivative based on shares of Hypo Real Estate Holding AG, which, in accordance with IAS 39, shall be separated from the host contract and measured at fair value as derivative. The change in the fair value has to be recognised in the income statement. On 20 August 2008 the mandatory convertible bond was converted into ordinary shares of Hypo Real Estate Holding AG. The final valuation of the derivative has resulted in pre-deferred tax income of € 180 million. The measurement of the derivative as of 31 December 2007 has resulted in pre-deferred tax income of € 96 million. The fair value of the embedded derivative of € 276 million had to be derecognised without affecting net income by debiting retained earnings.

In addition balance of other income / expenses contains expenses relating to the strategic realignment and restructuring of Hypo Real Estate Group which was decided on 19 December 2008. The objective of the strategic realignment is to reposition Hypo Real Estate Group as a leading specialist for real estate and public-sector finance in Germany and Europe, with a funding strategy focused on Pfandbrief issuance. The structural cost base will be reduced, and the balance sheet structure and risk profile enhanced. The Group plans to further simplify its corporate structure. The restructuring expenses result from an addition to restructuring provision of € 225 million.

In financial year 2007 restructuring expenses of € 35 million were recognised. After the take over of DEPFA BANK plc, and the relocation of the registered office of former Hypo Real Estate Bank International AG from Stuttgart to Munich, a restructuring of the Hypo Real Estate Group was started. To optimise the Group's international sales network operational locations were merged, proprietary trading activities which are not in line with the combined Group's strategy will be discontinued and headcount adjustments will be made.

43 Taxes on income

Breakdown in € million	**2008**	**2007**
Current taxes	62	112
Deferred taxes	24	18
thereof: Deferred taxes on capitalised losses	84	−55
Effect from revaluation according to Corporate Tax Reform Act	—	25
Effects from DEPFA acquisition	46	24
Total	**86**	**130**

The profit and loss agreement between former Hypo Real Estate Bank International AG and Hypo Real Estate Holding AG no longer exists due to a merger between former Hypo Real Estate Bank International AG and Hypo Real Estate Bank AG. Non-recurrent effects amounting to € 64 million (expense) and result from the revaluation of deferred taxes according to the relocation of the place of business to Unterschleißheim together with € 46 million (expense) resulting from the DEPFA acquisition.

The differences between the expected (computed) taxes on income and the taxes on income actually shown are outlined in the following reconciliation:

Reconciliation in € million	**2008**	**2007**
Net income/loss before taxes	−5,375	587
Applicable (legal) tax rate in %	15.83	26.38
Expected (computed) tax expense	−851	155
Tax effects		
arising from foreign income	18	12
arising from tax rate differences	60	26
arising from losses	−2	—
arising from tax-free income	365	−27
arising from deductible and non-deductible items	9	49
arising from valuation adjustments and the non-application of deferred taxes	507	−28
arising from the write-up of deferred taxes	−6	−71
arising from prior years and other aperiodical effects	−15	14
arising from other differences	1	—
Accounted taxes on income	**86**	**130**
Group tax ratio in %	**−1.6**	**22.1**

The tax rate applicable for the financial year is 15.83 % and is comprised of the current valid German corporate tax rate of 15 % together with the payable solidarity surcharge of 5.5 %.

The effects attributable to foreign income comprise tax rate differences arising from foreign fiscal jurisdictions. These arose as foreign income has been taxed at different rates.

The effects from tax rate differences include the trade tax burden (current and deferred in accordance with IFRS) which exists in Germany additionally to German corporation tax and solidarity surcharge. The effect from the planned relocation of the place of business is included, too. The trade tax multiplier effective in the new municipality is lower and the revaluation already mirrors at the reporting date the expected lower tax burden in the future.

The offsetting performed with respect to existing losses carried forward for which no deferred taxes had been capitalised previously is shown under the item "Effects arising from losses".

The item "Effects arising from tax-free income" comprises effects from tax-free income from participating interests, dividends and capital gains or losses both domestically and internationally. Regulations for the determination of taxable income were applied as valid for the particular jurisdiction. Significant effects from the impairments of holdings/goodwill are also included in this position.

The effects attributable to tax additions and deductions relate primarily to non-deductible expenses, which do not have to be taken into account as deferred taxes as a result of permanent differences, but which have reduced or increased the basis of taxation.

The item "Effects arising from valuation adjustments and the non-application of deferred taxes" comprises major effects from not recognised deferred tax assets at loss carry forwards. We recognised impairments of € 44 million on deferred tax assets which have been recorded last year on the basis of existing losses carried forward, as far as a use of the deferred tax assets seems insecure at present. Effects from periodical losses on the other hand are shown under the item "Effects from losses".

The item "Effects from previous years and other aperiodical effects" includes both current taxes for years which have been incurred as a result of tax audits or a reassessment of the tax liability, as well as aperiodical effects and deferred taxes for prior years.

The Group tax ratio is the quotient of the stated income taxes (current and deferred taxes) and pre-tax profit. In the year 2008 it has been mainly influenced by the impairment of deferred tax assets on losses carried forward, the non-application of deferred tax assets on losses carried forward and the impairments of holdings.

The deferred tax liabilities or deferred tax assets relate to the following items:

Deferred tax liabilities/assets		
in € million	**2008**	**2007**
Loans and advances to other banks/customers (including loan loss allowances)	54	−2
Financial investments	389	244
Intangible assets/ Property, plant and equipment	1	52
Other assets/liabilities	2,918	1,532
Liabilities to other banks/to customers	522	344
Others	118	71
Deferred tax liabilities	**4,002**	**2,241**
Loans and advances to other banks/customers (including provisions for losses on loans and advances)	645	329
Financial investments	602	139
Provisions	53	27
Other assets/liabilities	3,442	2,510
Losses carried forward	170	256
Others	222	6
Deferred tax assets	**5,134**	**3,267**

For the domestic companies, the deferred taxes are calculated using the pending uniform rate of corporation tax of 15 % plus the 5.5 % solidarity surcharge payable on this and the locally applicable collection rate for municipal trade tax (the current basic rate is 3.5 %). As a result of the relocation the cumulative tax rate for the calculation of deferred taxes for Hypo Real Estate Holding AG is 26.49 %.

On the reporting date, there are non-utilised losses carried forward totalling € 3,655 million (2007: € 859 million). Deferred tax assets have been stated as € 632 million (2007: € 802 million) because the criteria for recognition in accordance with IAS 12.34 et seq. were satisfied. The losses carried forward can be utilised for an unlimited period of time. Additionally temporary differences of € 61 million were not recognised with deferred tax assets.

A figure of € 582 million for deferred and actual taxes has been netted with the AfS reserve and € 371 million has been netted with the cash flow hedge reserve. The remaining equity was netted with € 73 million in connection with the acquisition of DEPFA.

44 Net gains/net losses

The income statement contains the following income-statement-related net gains/net losses according to IFRS 7.20 a:

Net gains/net losses		
in € million	**2008**	**2007**
Loans and receivables	−2,674	336
Held to maturity	—	18
Available for sale	−350	−218
Held for trading[1]	−829	−128
Designated at fair value through P&L	−76	−16
Financial liabilities at amortised cost	355	69

[1] Including the income in the amount of € 180 million from the embedded derivative comprised in the mandatory convertible bond shown in "Balance of other income/ expenses" (2007: € 96 million)

45 Earnings per share

In accordance with IAS 33 (Earnings per Share), earnings per share are calculated by dividing consolidated net income by the weighted average number of circulating shares. The financing expenses connected with the mandatory convertible bond are added to consolidated net income. On 20 August 2008 the mandatory convertible bond was converted into 9,976,258 notional no-par shares of Hypo Real Estate Holding AG. The adjusted average number of issued ordinary shares already includes the shares newly issued in line with their respective time weighting. Because no conversion or option rights in respect of conditional capital were outstanding on the reference date for the financial statements and ordinary shares that will be issued upon the conversion of a mandatory convertible bond are included in the calculation of basic earnings per share from the date the contract is entered into as per IAS 33.23, the basic earnings per share equal the diluted earnings per share. As per the balance sheet date there were no conversion or option rights outstanding.

Earnings per share

		2008	2007
Consolidated profit/loss	in € million	−5,461	457
+ Financing expenses for the mandatory convertible bond, net of tax effects	in € million	13	8
Adjusted consolidated profit	in € million	−5,448	465
Adjusted average number of issued ordinary shares	units	204,550,193	150,732,453
Potential shares to be issued upon conversion of the mandatory convertible bond	units	6,229,171	3,576,650
Adjusted weighted average total number of issued and potential ordinary shares	units	210,779,364	154,309,103
Basic earnings per share	in €	**−25.85**	**3.01**
Diluted earnings per share	in €	**−25.85**	**3.01**

The reclassifications of trading assets and AfS financial investments during the year had the effect of increasing both basic and diluted earnings per share for 2008 by € 2.97.

Notes to the Balance Sheet (Assets)

46 Cash reserve

Cash reserve in € million	31.12.2008	31.12.2007
Cash in hand	—	—
Balances with central banks	1,713	10,654
Total	**1,713**	**10,654**

Cash in hand amounts to less than € 1 million as was the case last year.

47 Trading assets

Trading assets in € million	31.12.2008	31.12.2007
Debt securities and other fixed-income securities	1,669	11,165
Money market securities	—	262
Bonds and notes	1,669	10,903
Issued by public-sector borrowers	506	2,949
Issued by other borrowers	1,163	7,954
thereof: Listed	1,416	5,985
Unlisted	253	5,180
Positive fair values from derivative financial instruments	3,044	787
Equity-related transactions	—	—
Interest-based and foreign-currency-based transactions	888	240
Others	2,156	547
Other trading assets	56	2,398
Stand-alone derivatives (bank book)	12,518	6,202
Total	**17,287**	**20,552**

48 Loans and advances to other banks

Loans and advances to other banks, broken down by type of business in € million	31.12.2008	31.12.2007
Loans and advances	45,055	38,675
Public sector loans	30,866	31,128
Real estate loans	94	1,280
Other loans and advances	14,095	6,267
Investments	4,354	13,300
Total	**49,409**	**51,975**

Loans and advances to other banks, broken down by maturities in € million	31.12.2008	31.12.2007
Repayable on demand	5,947	2,519
With agreed maturities	43,462	49,456
Up to 3 months	11,936	15,195
From 3 months to 1 year	2,289	6,034
From 1 year to 5 years	11,905	12,187
From 5 years and over	17,332	16,040
Total	**49,409**	**51,975**

49 Loans and advances to customers

Loans and advances to customers, broken down by type of business in € million	31.12.2008	31.12.2007
Loans and advances	220,965	213,161
Public sector loans	150,629	142,698
Real estate loans	58,455	60,870
Other loans and advances	11,881	9,593
Investments	1,083	12
Total	**222,048**	**213,173**

Loans and advances to customers, broken down by maturities in € million	31.12.2008	31.12.2007
Unspecified terms	32	6
With agreed maturities	222,016	213,167
Up to 3 months	7,910	6,105
From 3 months to 1 year	12,088	12,004
From 1 year to 5 years	58,962	52,329
From 5 years and over	143,056	142,729
Total	**222,048**	**213,173**

The loans and advances to customers contain a portfolio of loans that have been designated as at fair value through profit or loss (dFVTPL) to reduce the measurement inconsistency with the offsetting derivative, which is an economic hedge of the position. The dFVTPL loans and advances amount to € 395 million (31 December 2007: € 569 million). The dFVTPL loans and advances were acquired in the course of the take over of DEPFA BANK plc.

In 2008, the loans and advances designated as at fair value through profit or loss had fair value move of € –55 million attributable to a change in the credit risk of the asset (2007: € –4 million) and cumulatively since initial recognition of € –59 million. This was offset by a fair value move on the credit derivative of € 42 million (2007: € 4 million) and cumulatively since initial recognition of € 46 million.

The book value of the above loans reflects the maximum exposure to credit risk on these assets. This credit exposure is reduced by € 391 million by the related credit derivative.

50 Volume of lending

Volume of lending in € million	**31.12.2008**	**31.12.2007**
Loans and advances to other banks	45,055	38,675
Loans and advances to customers	220,965	213,161
Contingent liabilities	1,309	4,379
Total	**267,329**	**256,215**

51 Allowances for losses on loans and advances

Development in € million	Individual allowances on loans and advances	Portfolio-based allowances	**Total**
Balance at 1.1.2007	**728**	**212**	**940**
Changes affecting income	9	−89	**−80**
Gross additions	171	16	**187**
Releases	−138	−105	**−243**
Increase of the present value due to passage of time (unwinding)	−24	—	**−24**
Changes not affecting income	−65	110	**45**
Use of existing loan-loss allowances	−184	—	**−184**
Effects of currency translations and other changes not affecting income	119	110	**229**
Balance at 31.12.2007	**672**	**233**	**905**
Balance at 1.1.2008	**672**	**233**	**905**
Changes affecting income	1,117	431	**1,548**
Gross additions	1,208	501	**1,709**
Releases	−54	—	**−54**
Increase of the present value due to passage of time (unwinding)	−37	—	**−37**
Release model reserve	—	−70	**−70**
Changes not affecting income	−161	−15	**−176**
Use of existing loan-loss allowances	−203	−15	−218
Effects of currency translations and other changes not affecting income	42	—	**42**
Balance at 31.12.2008	**1,628**	**649**	**2,277**

The allowances for losses on loans and advances were exclusively created for the measurement category loans and receivables.

The determination of the portfolio-based provisions is based on a loss identification period. The adjustment of the parameter had an effect of € 105 million in financial year 2007.

Breakdown in € million	31.12.2008	31.12.2007
Individual allowances for losses on loans and advances to other banks	84	—
Individual allowances for losses on loans and advances to customers	1,544	672
Portfolio-based allowances	659	233
Total	**2,277**	**905**

Loan loss ratio in € million	31.12.2008	31.12.2007
Loan losses	221	183
Use of existing loan-loss allowances	218	184
Use of allowances for losses on guarantees and indemnities	6	4
Recoveries from written-off loans and advances	–3	–5
Total volume of lending	267,329	256,215
Loan loss ratio[1] in %	**0.08**	**0.07**

[1] Loan losses / total volume of lending

Ratio of allowances to total lendings in € million	31.12.2008	31.12.2007
Total allowances	2,288	918
Allowances for losses on loans and advances	2,277	905
Allowances for contingent liabilities and other commitments	11	13
Total volume of lending	267,329	256,215
Provision rate[1] in %	**0.86**	**0.36**

[1] Total allowances / total volume of lending

52 Financial investments

Breakdown in € million	31.12.2008	31.12.2007
AfS financial investments	14,470	82,196
Shares in non-consolidated subsidiaries	53	58
Participating interests	8	132
Debt securities and other fixed-income securities	14,406	82,002
Equity securities and other variable-yield securities	3	4
dFVTPL financial investments	4,476	4,628
Debt securities and other fixed-income securities	4,476	4,628
LaR financial investments	89,794	1,915
Debt securities and other fixed-income securities	89,794	1,915
Companies valued using the equity method	—	86
Investment properties	—	26
Total	**108,740**	**88,851**

Financial investments, broken down by maturities in € million	31.12.2008	31.12.2007
Unspecified terms	64	306
With agreed maturities	108,676	88,545
Up to 3 months	2,209	2,197
From 3 months to 1 year	4,751	4,246
From 1 year to 5 years	16,207	18,151
From 5 years and over	85,509	63,951
Total	**108,740**	**88,851**

Hypo Real Estate Group has made use of the IASB amendments to IAS 39 and IFRS 7 and reclassified financial assets. The Group identified assets, eligible under the amendments, for which at the reclassification date it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term and which had met the definition of loans and receivables according to IAS 39 (amongst others not quoted in an active market). The reclassified portfolios are disclosed under financial investments. In total the following assets were reclassified into the category loans and receivables:

Until 31 October 2008 Hypo Real Estate Group reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to € 3.5 billion and financial investments out of the category available-for-sale of € 76.1 billion. In addition, trading assets of € 0.7 billion were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

The following table summarises the carrying amount reclassified, the carrying amount and fair value as of 31 December 2008 as well as fair value gains and losses that would have been recognised in the income statement or AfS reserve if the financial assets had not been reclassified.

Reclassifications	into: Financial investment loans and receivables (LaR)				Effect if no assets would have been reclassified (date of reclassification until 31.12.2008)	
	Reclassifications		**31.12.2008**			
	Date	Carrying amount in € billion	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of: Trading assets held for trading (HfT)	1.7.2008	3.5	3.5	2.7	−755	
	1.10.2008	0.7	0.7	0.7	19	
out of: Financial investments available for sale (AfS)	1.7.2008	76.1	81.0	72.8	24	−7,070
Total		**80.3**	**85.2**	**76.2**		

The reclassification of trading assets contributed € 1 million to the net income from financial investments of the third quarter 2008. Net income from financial investments is not directly affected by the reclassification from AfS financial investments into LaR financial investments. However, specific provisions of € 1,524 million and portfolio-based provisions of € 24 million were recognised.

The net trading income of the second quarter 2008 included fair value changes of € −31 million on reclassified trading assets. In the second quarter 2008, reclassified AfS financial investments contributed € −311 million (after taxes) to the AfS reserve. At the date of reclassification the effective interest rate for the trading assets was between 1.3 % and 21.9 %. For AfS asserts the interest rate was between 0.25 % and 34.4 %.

Securities listed on the stock exchange

in € million		Debt securities and other fixed-income securities	Equity securities and other variable-yield securities	**Total**
Listed	31.12.2008	93,871	2	**93,873**
	31.12.2007	66,511	1	**66,512**
Unlisted	31.12.2008	14,805	1	**14,806**
	31.12.2007	22,034	3	**22,037**

Development of financial investments in € million	2008 Non-consolidated subsidiaries	Participating interests	AfS and LaR debt securities and other fixed-income securities	Equity securities and other variable-yield securities	dFVTPL investments	Companies valued using the equity method	Investment properties	**Total**	2007 Total
Acquisition costs									
Balance at 1.1.	**71**	**104**	**85,124**	**3**	**3,281**	**91**	**27**	**88,701**	**41,615**
Changes in the group of consolidated companies	—	—	—	—	—	−91	—	**−91**	43,352
Changes from foreign currency translation	—	−15	1,461	—	146	—	—	**1,592**	−331
Additions	—	1	24,067	1	2,307	—	—	**26,376**	23,529
Reclassifications	−3	—	4,130	—	—	—	—	**4,127**	—
Disposals	−2	—	−14,508	−1	−2,447	—	−27	**−16,985**	−19,528
Balance at 31.12.	**66**	**90**	**100,274**	**3**	**3,287**	**—**	**—**	**103,720**	**88,637**
Changes in valuation not affecting income									
Balance at 1.1.	**—**	**33**	**−599**	**—**	**—**	**—**	**—**	**−566**	**−134**
Changes in the group of consolidated companies	—	—	—	—	—	—	—	**—**	—
Changes from foreign currency translation	—	−1	—	—	—	—	—	**−1**	—
Changes in value	—	−32	−2,913	—	—	—	—	**−2,945**	−478
Reclassifications	—	—	−105	—	—	—	—	**−105**	—
Disposals	—	—	−183	—	—	—	—	**−183**	46
Balance at 31.12.	**—**	**—**	**−3,800**	**—**	**—**	**—**	**—**	**−3,800**	**−566**
Cumulative change arising from accounting using the equity method								**—**	**−5**
Amortisation/depreciation and write-ups									
Balance at 1.1.	**−13**	**−5**	**−608**	**1**	**1,347**	**—**	**−1**	**721**	**−194**
Changes in the group of consolidated companies	—	—	—	—	—	—	—	**—**	2,197
Changes from foreign currency translation	—	—	435	−1	−21	—	—	**413**	−700
Impairments	—	−77	−76	—	—	—	—	**−153**	−52
Reversals of premiums/discounts	—	—	226	—	—	—	—	**226**	209
Write-ups	—	—	7,540	—	—	—	—	**7,540**	13
Reclassifications	—	—	195	—	—	—	—	**195**	−3
Disposals	—	—	14	—	—	—	1	**15**	16
Changes in fair value	—	—	—	—	−137	—	—	**−137**	−701
Balance at 31.12.	**−13**	**−82**	**7,726**	**—**	**1,189**	**—**	**—**	**8,820**	**785**
Carrying amounts									
Balance at 31.12.	**53**	**8**	**104,200**	**3**	**4,476**	**—**	**—**	**108,740**	**88,851**

As of 31 December 2007 82 % of AfS, LaR and dFVTPL financial assets were valued on the basis of stock market prices and other market prices. 10 % of these financial investments were valued with valuation models that are-based on observable market parameters and 8 % on the basis of a model which partly uses non-market-observable parameters like expected maturity and cash flow assumptions. As of 31 December 2008 the financial investments were mainly measured on the basis of a model which partly uses non-market-observable parameters like expected maturity and cash flow assumptions.

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to € 24 million.

The Hypo Real Estate Group cannot determine reliably a fair value for some shares in companies for which there is no market value available and which are not fully consolidated or are accounted for using the equity method due to considerations of materiality. These companies in the legal form of limited or private are not traded in an active market. Therefore, the investments are stated at amortised cost. The carrying amount of these financial investments amounted to € 646 million as of 31 December 2008 (2007: € 41 million). In financial year 2008, financial investments, for which it is not possible for the fair value to be reliably established, were sold for € 28 million (2007: € 1 million). This resulted in no profit or loss (2007: € 0 million).

After the complete take over of Quadra Realty Trust, Inc., New York, Hypo Real Estate Group does not have any holding in joint ventures or associated companies valued using equity method.

Breakdown of debt securities and other fixed-income securities in € million	**31.12.2008**	**31.12.2007**
Money market papers	12	252
Bonds and debt securities	108,664	88,293
By public issuers	75,456	57,470
By other issuers	33,208	30,823
Total	**108,676**	**88,545**

53 Property, plant and equipment

Breakdown in € million	**31.12.2008**	**31.12.2007**
Land and buildings used for operational purposes and buildings under construction	—	32
Plant and operating equipment	32	36
Total	**32**	**68**

Development of property, plant and equipment in € million	2008			2007
	Land and buildings used for operational purposes and buildings under construction	Plant and operating equipment	**Total**	Total
Acquisition / production costs				
Balance at 1.1.	**34**	**85**	**119**	**70**
Changes in the group of consolidated companies	—	6	**6**	80
Changes from foreign currency translation	—	—	**—**	−2
Additions	—	14	**14**	8
Disposals	−34	−9	**−43**	−37
Balance at 31.12.	**—**	**96**	**96**	**119**
Amortisation/depreciation and write-ups				
Balance at 1.1.	**2**	**49**	**51**	**24**
Changes in the group of consolidated companies	—	4	**4**	25
Changes from foreign currency translation	—	—	**—**	—
Scheduled amortisation/depreciation	2	14	**16**	8
Unscheduled amortisation/depreciation	—	3	**3**	—
Write-ups	—	—	**—**	—
Reclassifications	−2	2	**—**	−1
Disposals	−2	−8	**−10**	−5
Balance at 31.12.	**—**	**64**	**64**	**51**
Carrying amounts				
Balance at 31.12.	**—**	**32**	**32**	**68**

54 Intangible assets

Breakdown in € million	31.12.2008	31.12.2007
Goodwill	—	2,233
Software acquired	31	53
Internally generated software	1	—
Customer relationships	—	174
Brand names	—	80
Other intangible assets	1	9
Advance payments	7	6
Total	**40**	**2,555**

Development of intangible assets	2008								2007
in € million	Goodwill	Software acquired	Internally generated software	Customer relationship	Brand names	Other intangible assets	Advances payments	**Total**	Total
Acquisition/production costs									
Balance at 1.1.	**2,233**	**114**	**—**	**177**	**80**	**14**	**6**	**2,624**	**103**
Changes in the group of consolidated companies	—	4	—	—	—	−11	—	**−7**	2,504
Changes from foreign currency translation	—	—	—	—	—	—	—	**—**	—
Additions	—	4	1	—	—	3	5	**13**	15
Reclassifications	—	7	—	—	—	−3	−4	**—**	3
Disposals	—	−1	—	—	—	—	—	**−1**	−1
Balance at 31.12.	**2,233**	**128**	**1**	**177**	**80**	**3**	**7**	**2,629**	**2,624**
Amortisation/depreciation and write-ups									
Balance at 1.1.	**—**	**61**	**—**	**3**	**—**	**5**	**—**	**69**	**34**
Changes in the group of consolidated companies	10	2	—	—	—	−4	—	**8**	10
Changes from foreign currency translation	—	—	—	—	—	—	—	**—**	—
Scheduled amortisation/ depreciation	—	20	—	9	—	1	—	**30**	20
Unscheduled amortisation/ depreciation	2,223	14	—	165	80	—	—	**2,482**	5
Write-ups	—	—	—	—	—	—	—	**—**	—
Reclassifications	—	−1	—	—	—	—	—	**−1**	1
Disposals	—	1	—	—	—	—	—	**1**	−1
Balance at 31.12.	**2,233**	**97**	**—**	**177**	**80**	**2**	**—**	**2,589**	**69**
Carrying amounts									
Balance at 31.12.	**—**	**31**	**1**	**—**	**—**	**1**	**7**	**40**	**2,555**

55 Other assets

Other assets in € million	31.12.2008	31.12.2007
Positive fair values from derivative financial instruments	16,918	9,285
Hedging derivatives	16,362	9,234
Micro fair value hedge	6,884	3,694
Cash flow hedge	9,478	5,540
Derivatives hedging dFVTPL financial instruments	556	51
Salvage acquisitions	183	185
Other assets	208	334
Deferred charges and prepaid expenses	26	10
Capitalised excess cover of qualified insurance for pension provisions	61	56
Total	**17,396**	**9,870**

The increase of salvage acquisitions in financial year 2007 results from the initial consolidation of IMMO Immobilien Management GmbH & Co. KG, Munich, and Ragnarök Vermögensverwaltung AG & Co. KG, Munich. In financial year 2008 there were new salvage acquisitions which are described in the note consolidation. The impairments on salvage acquisitions amounted to € 5 million in financial year 2008 (2007: € 0 million).

56 Income tax assets

Income tax assets in € million	31.12.2008	31.12.2007
Current tax assets	132	114
Deferred tax assets	5,134	3,267
Total	**5,266**	**3,381**

The “Income tax assets” item contains both reimbursement claims from actual taxes as well as a considerable element of deferred tax claims. These are attributable to capitalised temporary tax claims in connection with tax losses carried forward as well as other temporary tax claims. A considerable proportion of deferred tax assets were credited pursuant to IAS 12.61 of AfS and cash flow hedge reserve, because the underlying assets were also posted under these items. The actual tax claims also include the capitalised claim for payment of the corporate income tax credit. Per 30 September 2008 a first refund from the capitalised corporate income tax claim capitalised in 2006 was collected.

57 Subordinated assets

The following balance sheet items contain subordinated assets:

Subordinated assets in € million	31.12.2008	31.12.2007
Trading assets	15	—
Loans and advances to other banks	824	—
Loans and advances to customers	690	61
Financial investments	83	47
Total	**1,612**	**108**

58 Repurchase agreements

As a pledgor of genuine repurchase agreements, the Hypo Real Estate Group has pledged assets with a book value of € 86 billion (2007: € 73 billion). The securities are not derecognised. The considerations which have been received amount to € 67 billion (2007: € 67 billion) and are recognised under liabilities and thereof mainly come under liabilities to other banks. Assets in repurchase agreements are the only transferable assets the acquirer can sell or repledge in the absence of default according to IAS 39.37 (a).

59 Securitisation

Synthetic securitisation Issuer	Transaction name	Maturity in years	Type of asset securitised	Total volume of lending in € million
Hypo Real Estate Bank AG	DUKE 2002	25	Commercial mortgage loans	119
Hypo Real Estate Bank AG	GECO 2002	52	Commercial mortgage loans	306
Hypo Real Estate Bank AG	Estate Germany 2007-1	56	Private/small commercial mortgage loans	1,360
Hypo Real Estate Bank AG	Estate UK-3	15	Commercial mortgage loans	493
Hypo Real Estate Bank AG	ESTATE Pan Europe 5	11	Commercial mortgage loans	1,334
DEPFA BANK plc	EPIC I	27	Infrastructure finance loans	358
DEPFA BANK plc	EPIC II	36	Infrastructure finance loans and bonds	729
DEPFA BANK plc	EPIC III	52	Infrastructure finance utility bonds	700
DEPFA BANK plc	PSION	7	Investment grade sovereign and sub-sovereign bonds	684
Total				**6,083**

Securitisation involves the full or partial passing on to the capital market of lending risks for selected loan portfolios that have been precisely defined in advance. The prime aim of the bank's own securitisation programmes is to reduce the loan portfolio risk. In the traditional forms of securitisation, risk is transferred and the pressure on equity is reduced through the sale ("true sale") of balance sheet assets. According to IFRS the securitised portfolio is not eliminated in the case of synthetic transactions. Synthetic transfer of credit risk is executed in two forms while usually it is a combination of both forms:

- cash-funded transactions, where Hypo Real Estate Group is entering into a credit default swap (CDS) (protection buyer) which is collateralised, and
- unfunded transactions, where Hypo Real Estate Group is entering into a CDS which is not collateralised.

Securitisation programmes usually provide for a small part of the risks being retained in the form of a first-loss piece or interest sub-participation on the part of the pledgor. For the programmes listed above, first-loss pieces are held in the amount of € 140 million. Thereof the interest sub-participations total € 44 million.

Due to changed regulatory regulations (Basle II) the reduction of risk-weighted assets is no longer possible for the majority of the above-mentioned securitisation programmes. Overall a reduction of risk-weighted assets according to Basle II of € 101 million was achieved with the transactions.

In addition Hypo Real Estate Group made one true sale transaction with a volume of € 20 million in the year 2008. In financial year 2007 two true sale transactions were carried out with a total volume of US $ 347 million.

Notes to the Balance Sheet (Equity and Liabilities)

60 Liabilities to other banks

Liabilities to other banks by maturities in € million	**31.12.2008**	**31.12.2007**
Repayable on demand	1,843	1,046
With agreed maturities	145,035	110,195
Up to 3 months	116,311	75,219
From 3 months to 1 year	16,047	28,376
From 1 year to 5 years	7,692	5,019
From 5 years and over	4,985	1,581
Total	**146,878**	**111,241**

61 Liabilities to customers

Liabilities to customers by maturities in € million	**31.12.2008**	**31.12.2007**
Repayable on demand	615	1,916
With agreed maturities	15,321	25,190
Up to 3 months	1,751	7,856
From 3 months to 1 year	1,800	3,679
From 1 year to 5 years	3,463	5,170
From 5 years and over	8,307	8,485
Total	**15,936**	**27,106**

62 Liabilities evidenced by certificates

Liabilities evidenced by certificates, broken down by type of business in € million	**31.12.2008**	**31.12.2007**
Debt securities in issue	170,887	190,853
Mortgage bonds	12,469	12,840
Public sector bonds	99,708	107,412
Other debt securities	55,759	40,242
Money market securities	2,951	30,359
Registered notes in issue	27,091	27,227
Mortgage bonds	9,409	10,120
Public sector bonds	16,673	16,030
Other debt securities	1,009	1,077
Total	**197,978**	**218,080**

Liabilities evidenced by certificates, broken down by maturities in € million	**31.12.2008**	**31.12.2007**
With agreed maturities		
Up to 3 months	45,528	41,556
From 3 months to 1 year	18,541	31,413
From 1 year to 5 years	70,258	79,568
From 5 years and over	63,651	65,543
Total	**197,978**	**218,080**

63 Trading liabilities

Trading liabilities in € million	**31.12.2008**	**31.12.2007**
Negative fair values from derivative financial instruments	2,575	862
Interest-based and foreign-currency-based transactions	769	361
Credit-related transactions	1,806	444
Others	—	57
Other trading liabilities	2,969	7,551
Stand-alone derivatives (bank book)	11,692	6,422
Total	**17,236**	**14,835**

64 Provisions

Breakdown in € million	31.12.2008	31.12.2007
Provisions for pension and similar obligations	64	65
Restructuring provisions	235	33
Provisions for contingent liabilities and other commitments	11	13
Other provisions	42	33
thereof: Long-term liabilities to employees	5	6
Total	**352**	**144**

Provisions for pensions and similar obligations include in-house employer's pension direct commitments for company pensions payable to executive bodies and employees of the Hypo Real Estate Group.

For the vast majority of German employees of Hypo Real Estate Holding AG, Hypo Real Estate Bank AG and DEPFA Deutsche Pfandbriefbank AG there are both existing defined benefit plans as well as defined contribution plans. In the defined contribution plans, Group companies make payments for commitments by industry-wide organisations, for instance in Germany the BVV and HVB benefit funds.

In the case of defined benefit plans, the employees receive a direct commitment from their respective company. Active employees received predominantly modern modular pension plans. Pension provisions are created for obligations arising from direct commitments. Because the pension obligations are funded by plan assets in the form of pledged reinsurance, the pension provisions in the IFRS consolidated financial statements are netted with the fair value of the plan assets. The pension plans have been principally closed. For employees of DEPFA Deutsche Pfandbriefbank AG the pension commitments are not covered by directly designated plan assets.

The non-German Group entities only have defined contribution plans. For almost all international entities, a defined percentage of fixed salary is paid into externally managed pension funds for employees as a part of defined contribution pension schemes. Expenses in respect of contribution-based plans amounted to € 11 million, compared with € 5 million in the previous year. In addition, contributions of € 5 million were also paid for statutory pension insurance schemes in Germany in 2008 (2007: € 5 million).

Discount rates and valuation parameters in %	31.12.2008/ 1.1.2009	31.12.2007/ 1.1.2008
Discount rate	5.80	5.30
Expected return from plan assets	5.00	5.30
Rate of increase in pension obligations	2.25	2.00
Rate of increase in future compensation and vested rights	2.50	2.50
Rate of increase over career	0–1.50	0–1.50

As of 1 January 2005, the Hypo Real Estate Group took out reinsurance which is classified as a "qualifying insurance policy" under IAS 19 to protect itself against the primary risks arising from the defined-benefit pension commitments. New commitments of Hypo Real Estate Holding AG were insured in the fourth quarter 2008. The expected return of the plan assets has been calculated by employing the long-term risk-free interest rate in accordance with the investment strategy of the plan assets. The plan assets do not cover the obligations for companies which were initially consolidated as part of the take over of DEPFA BANK plc.

The reinsurance is a plan asset in accordance with IAS 19. In accordance with IAS 19.54, the pension obligations have to be reduced by the extent of the plan assets. Accordingly, the funding is as follows:

Funding status in € million	31.12.2008	31.12.2007	31.12.2006
Present value of unfunded pension obligations	60	65	—
Present value of funded pension obligations	172	168	190
Fair value of plan assets	−233	−223	−222
Outstanding actuarial profit (+)/loss (–)	4	—	−23
Outstanding past service cost	—	−1	−2
Net of balance sheet value	**3**	**9**	**−57**
thereof: Capitalised excess cover of plan assets	−61	−56	−57
Pensions provisions recognised	64	65	—

The 10 % corridor of the higher amount originating from the present value of the pension claims vested and the fair value of plan assets was not exceeded as of 31 December 2008 and as of 31 December 2007. Movements in pension claims are shown below:

Development of pension claims

in € million	2008	2007
Balance at 1.1.	**233**	**190**
Changes in the group of consolidated companies	2	63
Pension claims vested	11	2
Interest expense	12	9
New arised actuarial profit (–)/loss (+)	−13	−23
Payments to beneficiaries	−13	−8
Balance at 31.12.	**232**	**233**

The experience-based adjustment of pension claims amounts to 0 % (2007: 1 %) of the corresponding present value of pension claims vested as of 31 December 2008.

Pension expenses are broken down as follows:

Breakdown of pension expenses

in € million	2008	2007
Present value of pension claims vested	11	2
Interest expense	12	9
Expected return from plan assets	−12	−9
Past service cost	1	4
Actuarial losses recognised as expense	—	—
Total	**12**	**6**

Plan assets consist exclusively of reinsurance pledged to the plan beneficiaries. The plan assets accordingly do not contain any own financial instruments or any owner-operated property, plant and equipment which is used. Developments in plan assets are as follows:

Development of plan assets

in € million	2008	2007
Balance at 1.1.	**223**	**222**
Contributions to plan assets	13	−1
Expected return from plan assets	11	9
Outstanding actuarial profit(+)/loss(–)	−7	—
Payments to beneficiaries	−8	−7
Changes in the group of consolidated companies	1	—
Balance at 31.12.	**233**	**223**

The actual return from plan assets amounts to € 4 million (2007: € 9 million).

Development of provisions

in € million	Provisions for pensions and similar obligations	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions	**Total**
Balance at 1.1.2008	**65**	**33**	**13**	**33**	**144**
Changes in the group of consolidated companies	1	—	—	2	3
Additions	25	229	5	13	272
Reversals	—	−6	−1	−2	−9
Amounts used	−13	−21	−6	−4	−44
Reclassifications	−14	—	—	—	−14
Balance at 31.12.2008	**64**	**235**	**11**	**42**	**352**

On 19 December 2008 the Management Board and Supervisory Board of Hypo Real Estate Group decided upon the strategic realignment and restructuring of the Group. The objective of the strategic realignment is to reposition Hypo Real Estate Group as a leading specialist for real estate and public-sector finance in Germany and Europe, with a funding strategy focused on Pfandbrief issuance. The structural cost base will be reduced, and the balance sheet structure and risk profile enhanced. The Group plans to further simplify its corporate structure. The number of employees will be reduced over the next three years, to around 1,000. An additional 200 redundancies will occur until 2013, once the planned IT investment programme has been completed. A restructuring provision amounting to € 225 million was created for obligations relating to the strategic realignment and restructuring in the fourth quarter 2007. The provision consists of personnel expenses of € 141 million, expenses for closure of locations of € 62 million and consulting expenses of € 22 million. The provision will mainly be utilised until the year 2013.

In financial year 2007, after the take over of DEPFA BANK plc, and the relocation of the registered office of former Hypo Real Estate Bank International AG from Stuttgart to Munich, the restructuring of the Group into Hypo Real Estate Group was started. In the fourth quarter 2007 a restructuring provision amounting to € 27 million was created for these obligations relating to the restructuring and which was mainly utilised in the year 2008.

The provisions for contingent liabilities and other commitments mainly comprise provisions for guarantee risks, letters of credit, irrevocable loan commitments and litigation risks in the lending business.

The other provisions comprise mainly provisions in connection with town planning agreements of € 9 million (2007: € 9 million), provisions for long-term liabilities with regard to employees of € 5 million (2007: € 6 million) and provisions for retention obligations of € 2 million (2007: € 2 million).

65 Other liabilities

Other liabilities

in € million	31.12.2008	31.12.2007
Negative fair values from derivative financial instruments	33,329	14,073
Hedging derivatives	33,251	14,021
Micro fair value hedge	23,314	6,996
Cash flow hedge	9,937	7,025
Derivatives hedging dFVTPL financial instruments	78	52
Other liabilities	387	619
Deferred income	119	30
Total	**33,835**	**14,722**

Other liabilities mainly include liabilities from the offsetting of results and also accruals pursuant to IAS 37. Accrued liabilities in particular include trade accounts payable in respect of invoices still outstanding, short-term liabilities to employees and other accruals in respect of commission, interest, operating expenses, etc.

66 Income tax liabilities

Income tax liabilities

in € million	31.12.2008	31.12.2007
Current tax liabilities	161	116
Deferred tax liabilities	4,002	2,241
Total	**4,163**	**2,357**

Income tax liabilities include both provisions and liabilities from current taxes as well as deferred tax liabilities. A significant proportion of deferred tax liabilities were netted against AfS or cash flow hedge reserve.

67 Subordinated capital

Breakdown

in € million	31.12.2008	31.12.2007
Subordinated liabilities	2,387	2,127
Participating certificates outstanding	1,072	1,511
Hybrid capital instruments	1,325	1,977
Total	**4,784**	**5,615**

With all subordinated liabilities, there can be no early repayment obligation on the part of the issuer. In the event of bankruptcy or liquidation, such liabilities may only be repaid after all non-subordinate creditors have been satisfied.

Subordinated capital, broken down by maturities in € million	**31.12.2008**	**31.12.2007**
With agreed maturities		
Up to 3 months	227	77
From 3 months to 1 year	384	857
From 1 year to 5 years	1,574	1,430
From 5 years and over	2,599	3,251
Total	**4,784**	**5,615**

The non-payment and the devaluation of some instruments of subordinated capital led to an income of € 353 million in the year 2008. This income consists of the following components:

Effects from the non-payment and devaluation of some instruments of subordinated capital in € million	Interest not expensed in 2008	Net present value of interest not being paid in the future	Participation on loss
Subordinated liabilities	—	—	—
Participating certificates outstanding	20	25	202
Hybrid capital instruments	42	64	—
Total	**62**	**89**	**202**

Participating certificates outstanding Issued participatory capital comprises the following issues:

Participating certificates outstanding Issuer	Year of issue	Type	Nominal amount in € million	Interest rate in %	Maturity
DEPFA Deutsche Pfandbriefbank AG	1986	Bearer participation certificate	102	7.500	2010
Hypo Real Estate Bank AG	1989	Registered participation certificate	10	8.000	2014
Hypo Real Estate Bank AG	1993	Bearer participation certificate	38	7.000	2008
DEPFA Deutsche Pfandbriefbank AG	1994	Bearer participation certificate	256	6.500	2008
DEPFA Deutsche Pfandbriefbank AG	1996	Bearer participation certificate	383	7.650	2011
Hypo Real Estate Bank AG	1998	Registered participation certificate	15	6.125	2008
Hypo Real Estate Bank AG	1998	Registered participation certificate	10	6.125	2008
Hypo Real Estate Bank AG	1998	Registered participation certificate	5	6.125	2008
Hypo Real Estate Bank AG	1998	Registered participation certificate	10	6.125	2008
Hypo Real Estate Bank AG	1998	Registered participation certificate	5	6.125	2008
Hypo Real Estate Bank AG	1998	Registered participation certificate	5	6.050	2008
Hypo Real Estate Bank AG	1998	Bearer participation certificate	38	variable interest rate	2009
Hypo Real Estate Bank AG	1999	Bearer participation certificate	70	7.000	2009
Hypo Real Estate Bank AG	1999	Registered participation certificate	5	6.000	2009
Hypo Real Estate Bank AG	1999	Registered participation certificate	1	6.000	2009
DEPFA Deutsche Pfandbriefbank AG	2000	Registered participation certificate	25	7.820	2014
DEPFA Deutsche Pfandbriefbank AG	2000	Registered participation certificate	25	7.540	2009
DEPFA Deutsche Pfandbriefbank AG	2000	Registered participation certificate	52	7.750	2014
DEPFA Deutsche Pfandbriefbank AG	2000	Registered participation certificate	5	7.440	2009
DEPFA Deutsche Pfandbriefbank AG	2000	Registered participation certificate	15	7.560	2009
Hypo Real Estate Bank AG	2001	Registered participation certificate	21	7.100	2011
Hypo Real Estate Bank AG	2001	Registered participation certificate	5	7.130	2011
Hypo Real Estate Bank AG	2001	Bearer participation certificate	13	6.750	2010
Hypo Real Estate Bank AG	2001	Bearer participation certificate	50	7.000	2011
Hypo Real Estate Bank AG	2002	Bearer participation certificate	50	7.000	2012

The interest entitlement is reduced to the extent that a pay-out would result in the respective issuer recording an annual net loss or consolidated net loss for the year. Holders of participating certificates outstanding participate in any net loss or consolidated net loss for the year recorded by an issuer through a reduction in their repayment entitlements; this is based on the ratio between the repayment entitlements and the subscribed capital as shown in the balance sheet plus retained earnings and additional paid-in capital as well as participatory capital.

Net income for subsequent years must be increased to bring repayment entitlements back up to their nominal value. The participating certificates outstanding certify subordinated creditor rights; they do not guarantee any share in liquidation proceeds.

Hybrid capital instruments Hybrid capital instruments in particular include issues in the form of preferred securities placed by specifically established special-purpose entities. These instruments differ from conventional supplementary capital in that they are subject to more stringent conditions in terms of maturity. In addition, hybrid capital instruments are not repaid until after supplementary capital (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy. In contrast to traditional components of core capital, the claim to a share of profit, which depends on the existence of profit, takes the form of a fixed or variable interest payment in the case of hybrid capital instruments. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

Mandatory convertible bond Continuing to finance the DEPFA acquisition, Hypo Real Estate Holding AG has, as of 20 August 2007, used a special-purpose entity to place a subordinated mandatory convertible bond in the volume of € 450 million. The bond was converted in shares of Hypo Real Estate Holding AG on 20 August 2008.

68 Equity

On 31 December 2008, the subscribed capital of Hypo Real Estate Holding AG of € 633 million was divided into:

Subscribed capital number (face amount: € 3)	31.12.2008	31.12.2007
Shares of common bearer stock	211,084,520	201,108,262
Shares of registered non-voting preferred stock	—	—
Total	**211,084,520**	**201,108,262**

Authorised capital in € million	Available until	Original amount	Balance at 31.12.2008
Year authorised 2008	27.5.2010	180	180
Year authorised 2008	27.5.2010	60	60

Conditional capital 2008/I in € million	Available until	Original amount	Balance at 31.12.2008
Year authorised 2008	27.5.2010	60	60

[1] Related to the issue of convertible bonds and/or bonds with warrants, profit-participation rights and/or profit-linked bonds (or combinations of these instruments)

Conditional capital 2008/II in € million	Available until	Original amount	Balance at 31.12.2008
Year authorised 2008	27.5.2010	60	60

[1] Related to the issue of convertible bonds and/or bonds with warrants, profit-participation rights and/or profit-linked bonds (or combinations of these instruments)

Retained earnings in € million	31.12.2008	31.12.2007
Legal reserve	—	—
Other retained earnings	1,085	943
Total	**1,085**	**943**

The number of shares of common bearer stocks increased from 201,108,262 at 31 December 2007 to 211,084,520 at 31 December 2008 because of the conversion of the mandatory convertible bond increasing the number by 9,976,258.

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. Additional paid-in capital includes premiums from the issue of shares. It is only permissible to designate amounts to retained earnings where these are created from net income in the current or previous financial years. This includes legal reserves to be created from net income and other retained earnings.

69 Own shares and incentive compensation programme

DEPFA BANK plc established an incentive compensation programme (the “Scheme”) under which its Compensation Committee was entitled to award restricted shares to employees and directors of DEPFA. In conjunction with the formation of the Scheme, DEPFA established a Trust that was used to purchase shares of DEPFA BANK plc with funds provided by DEPFA. Shares purchased were held for the benefit of employees until the satisfaction of the associated vesting requirements. The rules of the Scheme were that the shares become vested in the specified employee or director over a specified period or upon change of control of DEPFA.

As a result of the acquisition of DEPFA by the Hypo Real Estate Holding AG on 2 October 2007 and the change of control of DEPFA BANK plc, all shares awarded to employees of DEPFA were transferred to them. However, there were 1,115,971 DEPFA shares held in the Trust which were not allocated under share awards to DEPFA employees. Upon the change of control, the Trust received € 6.80 and 0.189 shares in Hypo Real Estate Holding AG for each of the DEPFA shares held by the Trust. As a result, the Trust acquired 211,896 shares in Hypo Real Estate Holding AG which were deducted from equity according to IAS 32. Of these shares, 181,820 were awarded to employees of the Group. These shares became fully vested in February 2009.

These shares are held by the Trust until the specified vesting conditions are satisfied. The restricted shares carry no voting rights, but do carry entitlements to receive dividends as and when declared. Restricted shares are awarded for no further consideration, and are subject only to continued employment over the vesting period.

As of 31 December 2008 the DEPFA BANK plc Deferred Stock Trust, Dublin, held 196,084 shares in Hypo Real Estate Holding AG.

Details of the Hypo Real Estate Holding AG share awards made are as follows:

Share awards Award date	Number of shares awarded	Weighted average grant date fair value (in € million)
2 October 2007	181,820	8
Total	**181,820**	**8**

The total compensation cost recognised to date amounts to:

Compensation cost in € million	2008	2007	Total
Compensation cost recognised	6	1	**7**

No treasury shares were traded in the years 2008 and 2007.

70 Foreign-currency assets and liabilities

Foreign-currency assets and liabilities in € million	31.12.2008	31.12.2007
Foreign-currency assets and liabilities	124,486	123,600
thereof: US $	79,091	64,050
JP ¥	17,708	13,446
CHF	7,927	3,070
SEK	2,679	3,247
HK $	70	119
GB £	12,000	24,987
Others	5,011	14,681
Foreign-currency liabilities (excluding equity)	123,795	122,992
thereof: US $	79,104	64,170
JP ¥	17,527	13,232
CHF	7,940	3,028
SEK	2,586	3,139
HK $	84	130
GB £	11,607	24,777
Others	4,947	14,516

71 Trust business

The following tables show the volume of fiduciary business not shown in the consolidated balance sheet.

Trust assets in € million	31.12.2008	31.12.2007
Loans and advances to other banks	7	—
Loans and advances to customers	24	39
Other assets	45	45
Total	**76**	**84**

Trust liabilities in € million	31.12.2008	31.12.2007
Deposits from other banks	26	32
Amounts owed to other depositors	50	52
Total	**76**	**84**

Notes to the Cash Flow Statement

72 Notes to the items in the cash flow statement

The cash flow statement shows the cash flows of the financial year broken down into cash flows attributable to operating activities, investing activities and financing activities. Cash and cash equivalents correspond to the balance sheet item "cash reserve", and include cash in hand and credit balances at central banks.

Operating activities are defined broadly, and correspond to operating result. Cash flow from operating activities includes payments (inflows and outflows) attributable to loans and advances to other banks and customers as well as securities attributable to trading assets and other assets. Inflows and outflows attributable to liabilities to other banks and customers, liabilities evidenced by certificates and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are shown under cash flow from operating activities.

Cash flow from investing activities comprises payments for investment and security holdings as well as for property, plant and equipment.

Cash flow from financing activities comprises inflows and outflows for subordinated capital as well as dividends paid out. The conversion of the mandatory convertible bond in the year 2008 did not affect cash and cash equivalents.

In 2008, the company Quadra Realty Trust Inc., New York, was purchased and the company Collineo Asset Management GmbH was sold. In addition no other non-special-purpose entities were purchased or sold. The effects from the transactions are described in the note consolidation.

73 Undiscounted cash flows of financial liabilities

The contractual undiscounted cash flows of the financial liabilities according to IFRS 7.39 are split up into the following remaining maturities:

- up to 3 months € 179 billion (2007: € 143 billion)
- from 3 months to 1 year € 46 billion (2007: € 70 billion)
- from 1 year to 5 years € 109 billion (2007: € 128 billion)
- from 5 years and over € 132 billion (2007: € 122 billion).

Thereof resulted from derivative financial instruments with a remaining maturity

- up to 3 months € 0 billion
- from 3 months to 1 year € 3 billion
- from 1 year to 5 years € 8 billion
- from 5 years and over € 32 billion.

The remaining contractual undiscounted cash flows resulting from non-derivative financial instruments are divided into the following remaining maturities:

- up to 3 months € 179 billion
- from 3 months to 1 year € 43 billion
- from 1 year to 5 years € 101 billion
- from 5 years and over € 100 billion.

Notes to the Financial Instruments

74 Derivative transactions

The following tables present the respective nominal amounts and fair values of OTC derivatives and derivatives traded on a stock exchange.

In order to minimise (reduce) both the economic and the regulatory credit risk arising from these instruments, master agreements (bilateral netting agreements) have been concluded. By means of such netting agreements, the positive and negative fair values of the derivatives contracts included under the master agreement can be offset against one another, and the future regulatory risk add-ons for these products can be reduced. Through this netting process, the credit risk is limited to a single net claim on the party to the contract (close-out netting).

For both regulatory reports and the internal measurement and monitoring of the credit commitments, such risk-reducing techniques are utilised only if they are considered to be enforceable under the respective legal system in the event that the business associate becomes insolvent. Legal advice was taken in order to check enforceability.

Similar to the master agreements, the Hypo Real Estate Group concludes collateral agreements with its business associates to collateralise the net claim or liability remaining after netting (obtained or pledged collateral). As a rule, this collateral management reduces credit risk by means of prompt measurement and adjustment exposure to customers.

Volume of derivatives 31.12.2008	Nominal amount				Fair value	
	Remaining maturities					
in € million	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive	Negative
Interest-based transactions						
OTC products	171,261	228,811	391,432	**791,504**	26,042	42,927
Forward rate agreements	33	—	—	**33**	—	—
Interest rate swaps	158,978	218,823	386,761	**764,562**	25,793	41,559
Interest rate options	10,958	9,988	4,095	**25,041**	219	1,277
Call options	4,578	3,836	2,388	**10,802**	219	8
Put options	6,380	6,152	1,707	**14,239**	—	1,269
Other interest rate contracts	1,292	—	576	**1,868**	30	91
Exchange-traded products	2,608	140	—	**2,748**	5	2
Interest futures	2,608	140	—	**2,748**	5	2
Interest rate options	—	—	—	**—**	—	—
Total	**173,869**	**228,951**	**391,432**	**794,252**	**26,047**	**42,929**
Foreign-currency-based transactions						
OTC products	50,067	5,079	7,834	**62,980**	3,890	1,880
Spot and forward currency transactions	41,664	92	48	**41,804**	1,735	222
Interest rate/currency swaps	8,403	4,987	7,786	**21,176**	2,155	1,658
Currency options	—	—	—	**—**	—	—
Other foreign currency contracts	—	—	—	**—**	—	—
Exchange-traded products	—	—	—	**—**	—	—
Total	**50,067**	**5,079**	**7,834**	**62,980**	**3,890**	**1,880**
Equity-/index-based transactions						
OTC products	—	—	—	**—**	—	—
Exchange-traded products	—	—	—	**—**	—	—
Total	**—**	**—**	**—**	**—**	**—**	**—**
Other transactions						
OTC products	4,220	16,828	22,207	**43,255**	2,543	2,787
Credit derivatives	4,220	16,828	22,207	**43,255**	2,543	2,787
Other contracts	—	—	—	**—**	—	—
Exchange-traded products	—	—	—	**—**	—	—
Other futures	—	—	—	**—**	—	—
Other options	—	—	—	**—**	—	—
Total	**4,220**	**16,828**	**22,207**	**43,255**	**2,543**	**2,787**
Total	**228,156**	**250,858**	**421,473**	**900,487**	**32,480**	**47,596**

Use made of derivative transactions at 31.12.2008

in € million	Nominal amount	Fair value Positive	Fair value Negative
Fair value hedge accounting			
Interest-based transactions	248,821	6,282	22,590
Foreign-currency-based transactions	7,375	602	724
Other transactions	—	—	—
Total	**256,196**	**6,884**	**23,314**
Cash flow hedge accounting			
Interest-based transactions	356,718	8,031	9,293
Foreign-currency-based transactions	23,381	1,447	644
Other transactions	—	—	—
Total	**380,099**	**9,478**	**9,937**
Derivatives hedging dFVTP FIs			
Interest-based transactions	4,879	509	78
Foreign-currency-based transactions	—	—	—
Other transactions	395	47	—
Total	**5,274**	**556**	**78**
Stand-alone derivatives			
Interest-based transactions	183,834	11,225	10,968
Foreign-currency-based transactions	32,224	1,841	512
Other transactions	42,860	2,496	2,787
Total	**258,918**	**15,562**	**14,267**
Total	**900,487**	**32,480**	**47,596**

Volume of derivatives at 31.12.2007	Nominal amount				Fair value	
	Remaining maturities					
in € million	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive	Negative
Interest-based transactions						
OTC products	321,190	245,562	430,251	**997,003**	12,732	19,042
Forward rate agreements	459	—	—	**459**	—	—
Interest rate swaps	301,722	234,630	422,603	**958,955**	12,580	18,434
Interest rate options	16,966	8,281	6,249	**31,496**	134	594
Call options	7,217	2,892	1,499	**11,608**	134	—
Put options	9,749	5,389	4,750	**19,888**	—	594
Other interest rate contracts	2,043	2,651	1,399	**6,093**	18	14
Exchange-traded products	9,837	659	109	**10,605**	13	1
Interest futures	4,025	659	—	**4,684**	10	1
Interest rate options	5,812	—	109	**5,921**	3	—
Total	**331,027**	**246,221**	**430,360**	**1,007,608**	**12,745**	**19,043**
Foreign-currency-based transactions						
OTC products	51,563	9,866	12,652	**74,081**	2,896	1,621
Spot and forward currency transactions	39,982	172	147	**40,301**	488	302
Interest rate/currency swaps	11,581	9,694	12,505	**33,780**	2,408	1,319
Currency options	—	—	—	**—**	—	—
Other foreign currency contracts	—	—	—	**—**	—	—
Exchange-traded products	—	—	—	**—**	—	—
Total	**51,563**	**9,866**	**12,652**	**74,081**	**2,896**	**1,621**
Equity-/index-based transactions						
OTC products	450	—	—	**450**	102	—
Equity/index swaps	—	—	—	**—**	—	—
Equity/index options	450	—	—	**450**	102	—
Call options	—	—	—	**—**	—	—
Put options	450	—	—	**450**	102	—
Other equity/index contracts	—	—	—	**—**	—	—
Exchange-traded products	—	—	—	**—**	—	—
Total	**450**	**—**	**—**	**450**	**102**	**—**
Other transactions						
OTC products	15,817	17,553	20,776	**54,146**	524	642
Credit derivatives	15,817	17,553	20,776	**54,146**	524	642
Other contracts	—	—	—	**—**	—	—
Exchange-traded products	1,365	195	41	**1,601**	7	51
Other futures	152	—	—	**152**	2	1
Other options	1,213	195	41	**1,449**	5	50
Total	**17,182**	**17,748**	**20,817**	**55,747**	**531**	**693**
Total	**400,222**	**273,835**	**463,829**	**1,137,886**	**16,274**	**21,357**

Counterparties	31.12.2008		31.12.2007	
	Fair value		Fair value	
in € million	Positive	Negative	Positive	Negative
OECD central governments (and central banks)	—	—	198	73
OECD banks	24,635	36,244	13,641	17,412
OECD financial institutions	6,297	10,588	1,674	3,152
Non-OECD central governments (and central banks)	31	3	—	—
Non-OECD banks	17	—	3	5
Non-OECD financial institutions	365	—	—	1
Other companies and private individuals	1,135	761	758	714
Total	**32,480**	**47,596**	**16,274**	**21,357**

Fair values appear as sum of positive and negative amounts per contract, from which no pledged collateral has been deducted and no netting agreements have been taken into consideration. By definition, no positive fair values exist for put options.

75 Cash flow hedge accounting

The cash flows of the hedged items shown in cash flow hedge accounting are expected to occur in the following periods:

Cash flow hedge: Periods of hedged items when cash flows are expected to occur		
in € million	**31.12.2008**	**31.12.2007**
Up to 1 month	67	4
From 1 month to 3 months	154	108
From 3 months to 1 year	431	408
From 1 year to 2 years	317	325
From 2 years to 5 years	833	1,061
From 5 years and over	1,643	2,104
Total	**3,445**	**4,010**

It is expected that the cash flows will affect the income statement in the period of occurrence.

The development of the cash flow hedge reserve is shown in the statement of changes in equity.

76 Assets assigned or pledged as collateral for own liabilities

The following assets were assigned or pledged as collateral:

Own liabilities		
in € million	**31.12.2008**	**31.12.2007**
Liabilities to other banks	139,294	75,713
Liabilities to customers	—	5,509
Liabilities evidenced by certificates	30,098	—
Other liabilities	—	680
Total	**169,392**	**81,902**

The following assets were pledged as collateral for the above liabilities:

Assets pledged		
in € million	**31.12.2008**	**31.12.2007**
Trading assets	19	6,567
Loans and advances to other banks	14,080	8,658
Loans and advances to customers	80,908	23,243
Financial investments	61,184	45,565
Total	**156,191**	**84,033**

Within the framework of the liquidity support from a syndicate from the German finance sector and the Bundesbank with the participation of the German Federal Government as well as from the financial market stabilisation fund, Hypo Real Estate Holding AG as well as its major subsidiaries have transferred or assigned almost all of their freely available assets with a total nominal value of approx. € 60 billion as collateral to the security trustee of the lenders. In addition Hypo Real Estate Holding AG pledged the shares in Hypo Real Estate Bank AG, DEPFA Deutsche Pfandbriefbank AG and DEPFA BANK.

The remaining assets pledged mainly resulted from repurchase agreements.

77 Collaterals permitted to resell or repledge

The fair value of collaterals that may be resold or repledged in the absence of default amounted to € 43 million as of 31 December 2008 (2007: € 11.7 billion). Collaterals with a fair value of € 15 million (2007: € 0 million) were sold or repledged in the absence of default. Hypo Real Estate Group received the collaterals as part of repurchase agreements and is principally obliged to return the collaterals to the grantor. If only the collateral redeems in the mean time a cash compensation is possible.

78 Fair values of financial instruments

The recognised fair values of financial instruments according to IFRS 7 correspond to the amounts at which, in the opinion of the Hypo Real Estate Group, an asset could be exchanged on the balance sheet date between willing, competent business partners or the amount at which a liability could be settled between such business partners.

The fair values were determined as of the balance sheet date based on the market information available and on valuation methods described in note “Financial instruments”.

In 2008, as a result of widely inactive markets, it was not easy to establish fair values for many product classes – especially debt instruments. Quoted prices became less available during 2008, and were only present for liquid benchmark government bonds. None or only few transactions were observable for other financial instruments. If transactions were observable, volume was vanishing low and sometimes bid-ask spreads widened significantly. For many products of Hypo Real Estate Group it was neither possible to deduce fair value from recent arm’s length transactions in the particular financial instrument nor to draw upon current fair values or credit spreads of other instruments that are substantially the same. In these cases the Group used quoted market prices of liquid benchmark instruments to derive from the credit spread differences between the benchmark instrument and the product the best estimate of fair value. Therefore, a great deal of the Group’s non-derivative financial assets are measured with so-called level 3 inputs (unobservable market data). This does not apply to AfS, dFVTPL and trading assets which are mostly measured by stock exchange prices or measurement models based on market observable parameters. Thereby market prices generally exist for AfS assets whereas the other assets are measured based on models.

In the following the valuation methods on the level of product classes are described in detail:

The fair values of certain financial instruments reported at nominal values are almost identical to their carrying amounts. These include for example cash reserve, receivables and liabilities without fixed interest rates or maturity respectively mature in the short-term. Differences between the carrying amount and the fair value of these financial instruments are not material.

Quoted market prices are applied for market securities and derivatives as well as for quoted debt instruments. The fair value of the original debt instruments for which no active market price is available is determined as the present value for future expected cash flows on the basis of related benchmark interest curves and credit spreads.

The fair value of interest and currency interest swap agreements and also interest rate futures are determined on the basis of discounted future expected cash flows. The market interest rates applicable for the remaining maturity of the financial instruments are used for the purpose of the calculation. The fair value of forward exchange transactions is determined on the basis of current forward rates. Options are valued using exchange rate quotations or recognised models for determining option prices. For simple European options, the current Black-Scholes models (currency and index instruments) or log-normal models (interest instruments) are used as the valuation models. In the case of more exotic instruments, the interest rates are simulated via one and multidimensional term structure models with use of the current interest rate structure as well as caps or swaption volatilities as parameters relevant for valuation purposes. One and multifactor models are used for interest-currency products.

Widely accepted standard models are used for credit derivatives, e.g. credit default swaps. Credit risk is considered when valuing credit derivatives, interest rate derivatives and currency derivatives.

Gaussian copula models which are usual in the market and appropriate adjustments thereof are used for determining fair values for structured credit products. In parallel the expected loss of the respected papers was calculated on the basis of the underlyings and the subordination. A detailed separate credit analysis was performed for the tranches being held in case of significant expected losses.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost according to IAS 39.46. Hypo Real Estate Group is able to reliably establish the fair value for all other financial instruments.

Fair values of financial instruments	31.12.2008		31.12.2007	
in € million	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets	**414,316**	**382,860**	**394,058**	**393,966**
Cash reserve	1,713	1,713	10,654	10,654
Trading assets (HfT)	17,287	17,287	20,552	20,552
Loans and advances to other banks[1]	49,325	48,360	51,975	51,515
Category LaR	49,325	48,360	51,975	51,515
Category dFVTPL	—	—	—	—
Loans and advances to customers[1]	219,855	199,487	212,268	212,739
Category LaR	219,460	199,092	211,699	212,170
Category dFVTPL	395	395	569	569
Financial investments[2]	108,740	98,617	88,739	88,636
Category HtM	—	—	—	—
Category AfS	14,470	14,470	82,196	82,196
Category dFVTPL	4,476	4,476	4,628	4,628
Category LaR	89,794	79,671	1,915	1,812
Other assets	17,396	17,396	9,870	9,870
thereof: Hedging derivatives	16,362	16,362	9,234	9,234
Derivatives hedging dFVTPL financial instruments	556	556	51	51
Liabilities	**416,647**	**405,987**	**391,599**	**390,448**
Liabilities to other banks	146,878	146,444	111,241	111,234
Liabilities to customers	15,936	14,184	27,106	27,039
Liabilities evidenced by certificates	197,978	190,964	218,080	217,227
Trading liabilities (HfT)	17,236	17,236	14,835	14,835
Other liabilities	33,835	33,835	14,722	14,722
thereof: Hedging derivatives	33,251	33,251	14,021	14,021
Derivatives hedging dFVTPL financial instruments	78	78	52	52
Subordinated capital	4,784	3,324	5,615	5,391
Other items	**14,498**	**12,787**	**38,188**	**38,156**
Contingent liabilities	1,309	1,309	4,379	4,379
Irrevocable loan commitments	11,271	9,560	17,267	17,235
Liquidity facility	1,918	1,918	16,542	16,542

[1] Reduced by allowances for losses on loans and advances
[2] Excluding investment properties and companies valued using the equity method

The carrying amounts reflect the maximum on balance sheet exposure to credit risk of the assets and the maximum amount the entity could have to pay of the other items according to IFRS 7.

Asset and liabilities according to measurement categories and classes in € million	**31.12.2008**	**31.12.2007**
Assets		
Loans and receivables (LaR)	358,579	265,589
Held to maturity (HtM)	—	—
Available for sale (AfS)	14,470	82,196
Held for trading (HfT)	17,287	20,552
dFVTPL assets (dFVTPL)	4,871	5,197
Cash reserve	1,713	10,654
Positive fair values from hedging derivatives	16,918	9,285
Liabilities		
Held-for-trading (HfT)	17,236	14,835
Financial liabilities at amortised cost	365,847	362,460
Negative fair values from hedging derivatives	33,329	14,073

79 Past due but not impaired assets

At 31 December 2008, the following amounts were noted by the Group as being past due. However, no impairment provision was made against these assets as the bank does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur frequently in the normal course of business and do not, by themselves, impair the quality of the asset. The total investment in relation to the past due amounts have also been disclosed to put the size of the amounts in question into context.

LaR assets

LaR assets: past due but not impaired (due amounts) in € million	**31.12.2008**	**31.12.2007**
Up to 3 months	18	57
From 3 months to 6 months	118	16
From 6 months to 1 year	28	12
From 1 year and over	13	15
Total	**177**	**100**

LaR assets: past due but not impaired (due amounts) in € million	**31.12.2008**	**31.12.2007**
Up to 3 months	927	4,628
From 3 months to 6 months	265	2,881
From 6 months to 1 year	120	1,353
From 1 year and over	79	351
Total	**1,391**	**9,213**

The amounts as far as loans and receivables are concerned are mainly collateralised by land charges. The fair value of the collaterals amounts to € 0.9 billion (2007: € 1.9 billion).

Carrying amounts LaR assets in € billion	**31.12.2008**	**31.12.2007**
Carrying amounts LaR assets that are neither impaired nor past due	358.0	256.5
Carrying amounts LaR assets that are past due but not impaired (total investment)	1.4	9.2
thereof: Due amounts	0.2	0.1
Carrying amounts of individually assessed impaired LaR assets (net)	0.8	0.7
Balance of portfolio-based allowances	0.6	0.1
Total	**360.8**	**266.5**
thereof: Loans and advances to other banks (including investments)	49.4	52.0
Loans and advances to customers (including investments)	221.6	212.6
Financial investments (gross)	89.8	1.9

The carrying amount of assets that would otherwise be past due or impaired and whose terms have been renegotiated amounts to € 0 million (2007: € 0 million).

The fair value of collaterals for the impaired financial assets amounts to approximately € 1.2 billion (2007: € 0.8 billion). The collaterals mainly consist of lands charges.

AfS assets

AfS financial investments: past due but not impaired (due amount) in € million	31.12.2008	31.12.2007
Up to 3 months	—	4
From 3 months to 6 months	—	1
From 6 months to 1 year	—	2
From 1 year and over	—	1
Total	**—**	**8**

AfS financial investments: past due but not impaired (total loan / investments) in € million	31.12.2008	31.12.2007
Up to 3 months	—	2,557
From 3 months to 6 months	—	25
From 6 months to 1 year	—	483
From 1 year and over	—	1,625
Total	**—**	**4,690**

As of 31 December 2008 Hypo Real Estate Group has neither past due and not impaired nor impaired AfS financial investments in the portfolio.

80 Accruing of day one profits

Accruing of day one profits in € million	2008	2007
Beginning balance of day one profits yet to be recognised in P&L	**42**	**—**
Changes in the group of consolidated companies	—	34
New recognised day one profits	13	11
Day one profits accrued to P&L	−4	−3
Final balance of day one profits yet to be recognised in P&L	**51**	**42**

The day one profits to be accrued result from financial assets categorised as held-for-trading.

Other Notes

81 Contingent liabilities and other commitments

Contingent liabilities and other commitments in € million	**31.12.2008**	**31.12.2007**
Contingent liabilities[1]	**1,309**	**4,379**
Guarantees and indemnity agreements	1,309	4,379
Loan guarantees	58	377
Performance guarantees and indemnities	1,251	4,002
Other commitments	**13,246**	**35,507**
Irrevocable loan commitments	11,271	17,267
Book credits	2,269	1,191
Guarantees	83	181
Mortgage and public sector loans	8,919	15,895
Liquidity facilities	1,918	16,542
Other commitments	57	1,698
Total	**14,555**	**39,886**

[1] In principle, the amount of contingent liabilities equates to the amount of contingent assets.

Hypo Real Estate Holding AG has issued the loss indemnity declaration for the deposit protection fund established by the Bundesverband deutscher Banken e.V., Berlin, as prescribed by the applicable articles of association.

The Hypo Real Estate Group is a lessor within the framework of operating lease agreements. Non-terminable operating lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2008. The minimum obligations arising from non-terminable leasing arrangements will result in costs of € 21 million in 2009, € 83 million in the years 2010 to 2013 and € 130 million for 2014 and beyond. In the previous year the non-terminable operating lease agreements were as follows: for financial year 2008: € 15 million, in financial years 2009 to 2012 € 50 million and for 2013 and beyond € 63 million.

For Hypo Real Estate Group irrevocable loan commitments and liquidity facilities form the largest part of other commitments. Irrevocable loan commitments comprise all commitments of a creditor which can grant a loan and advance at a later date and which can cause a credit risk. These are mainly credit commitments which are not fully drawn by the customer. Liquidity facilities are committed credit lines.

82 Key regulatory capital ratios (based on German Commercial Code)

The executive officers manage regulatory capital on the basis of the German Solvency Regulation (SolvV) in connection with section 10 German Banking Act (KWG). According to these standards the total equity capital ratio (equity capital / risk-weighted assets) may not go below 8.0 %. In addition, the core capital (Tier I) must consist of at least 50 % of equity capital (core capital and supplementary capital), so that the core capital ratio may not be lower than 4.0 %. At the same time, the own funds ratio, which is calculated by dividing the own funds by the total risk-weighted assets, must be no lower than 8.0 %. The total risk-weighted assets are determined by multiplying the capital requirements for market risk positions (including trades in options) and operational risks by 12.5 and adding the resulting figures to the sum of risk-weighted assets for credit risk.

Taking into account the negative net income for 2008, the regulatory minimum ratio requirements would not have been met by 31 December 2008. According to German regulatory standards, the calculation of own funds for the due date 31 December 2008 had to happen with, out the year end results, due to the fact that at the time of the Solvency Reporting to the Supervisors, the approved annual financial statement did not yet exist. This would have been the pre requisite to include the net result.

Currently, the dialogue with the financial market stabilisation fund is at an advanced stage. Hypo Real Estate Group assumes it will meet the regulatory ratios for minimum capitalisation by the support of the financial market stabilisation fund.

Own funds [1]				
in € million	**31.12.2008** [2]	**31.12.2008** [3]	**31.12.2007** [2][4]	**31.12.2007** [3][4]
Core capital (Tier I)	5,897	2,928	9,257	9,463
Supplementary capital (Tier II)	2,275	2,069	2,905	2,942
Equity capital	**8,172**	**4,997**	**12,162**	**12,405**
Tier III capital	—	—	—	—
Total	**8,172**	**4,997**	**12,162**	**12,405**

[1] Consolidated pursuant to section 10a German Banking Act [KWG]
[2] Before approved annual financial statements and before profit distribution
[3] As per approved annual financial statements and after profit distribution
[4] According to Principle I

The risk-weighted assets, the operational risks and market risk positions were as follows:

Risk-weighted assets			
in € billion	**31.12.2008** [1][3]	**31.12.2008** [2][3]	**31.12.2007** [4]
Risk-weighted assets	95.3	87.3	109.1

[1] Before approved annual financial statements and before profit distribution
[2] As per approved annual financial statements and after profit distribution
[3] Including counterparty risks, weighted market risk positions and weighted operational risks, according to Basle II IRB approach for authorised portfolios, otherwise Basle II standardised approach
[4] According to Principle I; including counterparty risks and weighted market risk positions

The operational risks amounted to € 237 million as of 31 December 2008.

Market risk positions		
in € million	**31.12.2008**	**31.12.2007** [1]
Currency risks	64	19
Interest rate risks	282	428
Risks from equity securities/ risks from options	—	6
Total	**346**	**453**

[1] According to Principle I

The regulatory capital ratios were calculated on the basis of the definition for regulatory capital according to SolvV and risk-weighted assets according to Basle II. The resulting ratios as of 31 December 2008 were thus as follows:

Key regulatory capital ratios				
in %	**31.12.2008** [1][3]	**31.12.2008** [1][4]	**31.12.2007** [2][3]	**31.12.2007** [2][4]
Core capital ratio	6.2	3.4	8.5	8.7
Equity capital ratio [5]	9.0	6.0	11.8	12.0
Own funds ratio (overall indicator)	8.6	5.7	11.1	11.4

[1] Including counterparty risk positions, weighted market risk positions and weighted operational risks
[2] According to Principle I; including counterparty risk positions and weighted market risk positions
[3] Before approved annual financial statements and before profit distribution
[4] As per approved annual financial statements and after profit distribution
[5] Excluding weighted market risk positions

83 Letter of comfort

For the following companies, Hypo Real Estate Holding AG ensures that they are able to meet their contractual obligations (with the exception of political risk):
- Hypo Real Estate Bank AG, Munich
- DEPFA Deutsche Pfandbriefbank AG, Eschborn

84 Group auditors' fee

Group auditors' fee

in € thousand	31.12.2008	31.12.2007
Audits	5,170	4,499
Other affirmation and assessment	650	570
Tax consultancy	178	811
Other services	6,139	4,198
Total	**12,137**	**10,078**

85 Relationship with related parties

Transactions with related companies and persons are conducted on an arms-length basis.

Related companies

Assets to related parties

Assets to related parties

in € million	31.12.2008	31.12.2007
Loans and advances to customers	**66**	**316**
of non-consolidated subsidiaries	18	15
of other related companies	48	55

In addition, the portfolio did not include assets to non-consolidated subsidiaries and other related companies.

Liabilities to related parties The portfolio did not include any liabilities to non-consolidated subsidiaries and other related companies.

Relation to defined contribution plans As was the case last year no loans and advances nor any liabilities existed with respect to defined contribution plans as of 31 December 2008.

Income and expenses recognised during the period in respect to related parties were not significant.

Related persons

Remuneration paid to persons with key function in the Group (Senior Management)[1]	2008				2007
in € thousand	Total fixed remuneration[2]	Profit-related components[3]	Other	**Total**	Total
Total	14,593	2,379	3,240	**20,212**	38,346

[1] Members of the Management Board and executive vice-presidents of Hypo Real Estate Holding AG, its subsidiaries as well as managing directors of Hypo Real Estate Systems GmbH and the heads of Hypo Real Estate Holding AG
[2] Includes, within limits, general expenses for fringe benefits, which underlie taxation abroad and also social security
[3] Profit-related remuneration for the year 2008, but partially paid 2009

Pension obligations to persons with key function in the Group (Senior Management)		
in € thousand	**31.12.2008**	**31.12.2007**
Total[1]	61,090	71,077

[1] Thereof € 41,798 thousand (2007: € 34,721 thousand) for pensioners and surviving dependants

The compensation for the members of the Management Board and the members of the Supervisory Board is shown (inclusive tables) in the compensation report.

In 2008, the members of the Supervisory Board of Hypo Real Estate Holding AG did not receive any compensation for personal services. On the reference date for the financial statements, there were no receivables in respect of members of the Supervisory Board.

The following table sets out shares and share derivatives of Hypo Real Estate Holding AG which have been purchased or sold by members of the Supervisory Board and Management Board of Hypo Real Estate Holding AG in accordance with the disclosure obligation pursuant to section 15 a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) (directors’ dealings):

Directors' dealings (§ 15 a WpHG)

Name and function as member of the executive bodies	Type of transaction, description of financial instrument and ISIN / WKN	Date of transaction	Place of transaction	Price	Number of items	In case of derivatives: Description and ISIN / WKN of underlying financial instrument	Strike price	Price multiplier	Expiration date
Frank Lamby Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 24.01	3,885				
Frank Lamby Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 24.09	115				
Georg Funke Chairman of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 22.09	1,949				
Georg Funke Chairman of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 22.10	13,849				
Georg Funke Chairman of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 22.08	4,202				
Dr. Markus Fell Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 21.99	2,500				
Bettina von Oesterreich Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 21.20	2,318				
Cyril Dunne Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 24.40	35,000				
Cyril Dunne Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 24.40	2,000				
Cyril Dunne Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 21.17	21,000				
Bo Heide-Ottosen Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 21.64	3,000				
Dr. Robert Grassinger Member of the Management Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	15.1.2008	Frankfurt Xetra	€ 21.50	1,000				
Prof. Dr. Klaus Pohle Member of the Supervisory Board	Buy of discount certificate of Hypo Real Estate Holding AG DE 000 CB6UMF3 / CB6UMF	16.1.2008	EUWAX Stuttgart	€ 20.00	2,500	Shares of Hypo Real Estate Holding AG DE0008027707	€ 22.20	1.000	19.3.2009
Antoine Jeancourt-Galignani Member of the Supervisory Board	Buy of ordinary shares of Hypo Real Estate Holding AG DE 000 802 7707 / 802 770	16.1.2008	Duesseldorf	€ 22.06	1,500				
Prof. Dr. Klaus Pohle Member of the Supervisory Board	Buy of discount certificate of Hypo Real Estate Holding AG DE 000 CB6UMF3 / CB6UMF	17.1.2008	EUWAX Stuttgart	€ 19.95	7,500	Shares of Hypo Real Estate Holding AG DE0008027707	€ 22.20	1.000	19.3.2009

On 31 December 2008, the members of the Management Board and Supervisory Board together held less than 1 % of the total shares issued by Hypo Real Estate Holding AG.

86 Employees

Average number of employees	2008	2007
Employees (excluding trainees)	1,884	1,955
Apprentices	8	7
Total	**1,892**	**1,962**

87 Summary of quarterly financial data

Hypo Real Estate Group		2007	2008			
		4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
Operating performance						
Operating revenues	in € million	27	184	236	−345	−660
Net interest income and similar income	in € million	434	299	304	354	676
Net commission income	in € million	56	35	34	35	−72
Net trading income	in € million	−252	−98	12	−349	−574
Net income from financial investments	in € million	−206	−29	−135	−364	−881
Net income from hedge relationships	in € million	−1	−19	15	−30	120
Balance of other operating income/expenses	in € million	−4	−4	6	9	71
Provisions for losses on loans and advances	in € million	−142	33	37	177	1,409
General administrative expenses	in € million	164	145	160	119	181
Balance of other income/expenses	in € million	−10	184	−22	18	−227
Pre-tax profit (excluding impairments on goodwill and DEPFA's intangible assets and restructuring expenses)	in € million	−5	190	17	−623	−2,477
Impairments on goodwill and DEPFA's intangible assets	in € million	—	—	—	2,482	—
Pre-tax profit	in € million	−5	190	17	−3,105	−2,477
Net income/loss	in € million	−28	148	12	−3,052	−2,569
Key indicators						
Total volume of lending	in € billion	256.2	257.4	257.3	260.9	267.3
Risk assets compliant with BIS rules[1]	in € billion	109.1	122.0[2]	120.3[2]	96.3[3]	95.3[3][4]
Core capital ratio compliant with BIS rules[1]	in %	8.5[4]	7.8	8.0	6.7	6,2[4]
Employees		2,000	2,000	1,904	1,848	1,786

[1] 2007 according to Principle I; including counterparty risks and weighted market risk positions; 2008 including counterparty risks, weighted market risk positions and weighted operational risks
[2] Entirely according to Basle II standardised approach
[3] According to Basle II IRB approach for authorised portfolios, otherwise Basle II standardised approach
[4] Before approved annual financial statements and before profit distribution

Hypo Real Estate Group (pro forma)		**2007**	**2008**			
		4th quarter (pro forma)	**1st quarter**	**2nd quarter**	**3rd quarter**	**4th quarter**
Operating performance						
Operating revenues	in € million	33	184	236	−345	−660
Net interest income and similar income	in € million	440	299	304	354	676
Net commission income	in € million	56	35	34	35	−72
Net trading income	in € million	−252	−98	12	−349	−574
Net income from financial investments	in € million	−206	−29	−135	−364	−881
Net income from hedge relationships	in € million	−1	−19	15	−30	120
Balance of other operating income/expenses	in € million	−4	−4	6	9	71
Provisions for losses on loans and advances	in € million	−142	33	37	177	1,409
General administrative expenses	in € million	164	145	160	119	181
Impairments on goodwill and DEPFA’s intangible assets	in € million	—	—	—	2,482	—
Balance of other income/expenses	in € million	−6	184	−22	18	−227
Pre-tax profit	in € million	5	190	17	−3,105	−2,477

Commercial Real Estate (pro forma)		**2007**	**2008**			
		4th quarter (pro forma)	**1st quarter**	**2nd quarter**	**3rd quarter**	**4th quarter**
Operating performance						
Operating revenues	in € million	245	231	200	226	219
Net interest income and similar income	in € million	202	194	188	187	187
Net commission income	in € million	26	21	20	26	28
Net trading income	in € million	−1	−11	−8	−1	−25
Net income from financial investments	in € million	15	23	—	17	18
Net income from hedge relationships	in € million	2	—	—	—	—
Balance of other operating income/expenses	in € million	1	4	—	−3	11
Provisions for losses on loans and advances	in € million	15	23	25	179	839
General administrative expenses	in € million	37	44	45	44	22
Balance of other income/expenses	in € million	—	—	—	—	−5
Pre-tax profit	in € million	193	164	130	3	−647
New business	in € billion	6.8	3.1	2.6	1.6	0.5

Public Sector & Infrastructure Finance (pro forma)		**2007**	**2008**			
		4th quarter (pro forma)	**1st quarter**	**2nd quarter**	**3rd quarter**	**4th quarter**
Operating performance						
Operating revenues	in € million	222	204	184	41	180
Net interest income and similar income	in € million	158	157	179	189	205
Net commission income	in € million	15	7	11	6	−63
Net trading income	in € million	13	34	−6	−142	−10
Net income from financial investments	in € million	33	2	—	6	5
Net income from hedge relationships	in € million	8	4	—	−18	40
Balance of other operating income/expenses	in € million	−5	—	—	—	3
Provisions for losses on loans and advances	in € million	−1	—	—	—	420
General administrative expenses	in € million	42	32	33	25	−15
Balance of other income/expenses	in € million	—	—	—	—	−8
Pre-tax profit	in € million	181	172	151	16	−233
New business	in € billion	13.8	16.7	11.7	5.7	0.4

Capital Markets & Asset Management (pro forma)		2007	2008			
		4th quarter (pro forma)	1st quarter	2nd quarter	3rd quarter	4th quarter
Operating performance						
Operating revenues	in € million	−43	3	56	−43	−522
Net interest income and similar income	in € million	27	11	10	35	17
Net commission income	in € million	13	9	4	4	−12
Net trading income	in € million	−64	−41	50	−83	−444
Net income from financial investments	in € million	−8	24	−4	1	−82
Net income from hedge relationships	in € million	−11	—	−4	—	−1
Balance of other operating income/expenses	in € million	—	—	—	—	—
Provisions for losses on loans and advances	in € million	—	—	—	—	—
General administrative expenses	in € million	30	22	20	15	−25
Balance of other income/expenses	in € million	—	—	—	—	—
Pre-tax profit	in € million	−73	−19	36	−58	−497

Corporate Center (pro forma)		2007	2008			
		4th quarter (pro forma)	1st quarter	2nd quarter	3rd quarter	4th quarter
Operating performance						
Operating revenues	in € million	−391	−254	−204	−569	−537
Net interest income and similar income	in € million	53	−63	−73	−57	267
Net commission income	in € million	2	−2	−1	−1	−25
Net trading income	in € million	−200	−80	−24	−123	−95
Net income from financial investments	in € million	−246	−78	−131	−388	−822
Net income from hedge relationships	in € million	—	−23	19	−12	81
Balance of other operating income/expenses	in € million	—	−8	6	12	57
Provisions for losses on loans and advances	in € million	−156	10	12	−2	150
General administrative expenses	in € million	55	47	62	35	199
Impairments on goodwill and DEPFA’s intangible assets	in € million	—	—	—	2,482	—
Balance of other income/expenses	in € million	−6	184	−22	18	−214
Pre-tax profit	in € million	−296	−127	−300	−3,066	−1,100

88 Summary of annual financial data

Hypo Real Estate Group[1] **Income/expenses**		**2008**	**2007**	**2006**	**2005**	**2004**
Operating revenues	in € million	–585	906	1,082	946	835
Net interest income and similiar income	in € million	1,633	1,105	804	722	681
Net commission income	in € million	32	198	145	125	94
Net trading income	in € million	–1,009	–224	43	26	13
Net income from financial investments	in € million	–1,409	–169	79	70	44
Net income from hedge relationships	in € million	86	–5	9	–2	3
Balance of other operating income/expenses	in € million	82	1	2	5	—
Provisions for losses on loans and advances	in € million	1,656	–61	159	151	276
General administrative expenses	in € million	605	435	335	317	315
Impairments on goodwill and DEPFA's intangible assets	in € million	2,482	—	—	—	—
Balance of other income/expenses	in € million	–47	55	–17	–35	–23
Pre-tax profit	in € million	**–5,375**	**587**	**571**	**443**	**221**
Taxes on income	in € million	86	130	29	63	–50
Net income/loss	in € million	**–5,461**	**457**	**542**	**380**	**271**

[1] The change in accounting policy for allowances for losses on loans and advances is included from 1 January 2005 onwards

89 Members of the Supervisory Board and of the Management Board

Supervisory Board of Hypo Real Estate Holding AG		**Function in the Committees**			
Name	**Function in the Supervisory Board**	Executive Committee	Audit Committee	Nomination Committee	Risk Management and Liquidity Strategy Committee
Dr. Michael Endres	Member from 17.11.2008	Chairman from 6.12.2008		Chairman from 6.12.2008	
	Chairman from 6.12.2008				
Bernhard Walter	Member from 17.11.2008		Chairman from 6.12.2008		
	Deputy chairman from 6.12.2008				
Bernd Knobloch	Member from 17.11.2008				Chairman from 6.12.2008
Dr. Edgar Meister	Member from 17.11.2008		Member from 6.12.2008		
Sigmar Mosdorf	Member from 17.11.2008				
Hans-Jörg Vetter	Member from 17.11.2008	Member from 6.12.2008		Member from 6.12.2008	
Manfred Zaß	Member from 17.11.2008				Member from 6.12.2008

Supervisory Board of Hypo Real Estate Holding AG		Function in the Committees			
Name	**Function in the Supervisory Board**	Executive Committee	Audit Committee	Nomination Committee	Risk Management and Liquidity Strategy Committee
Prof. Dr. Klaus Pohle	Member until 30.11.2008	Member until 30.11.2008	Chairman until 30.11.2008	Chairman 10.10. to 30.11.2008	
	Deputy chairman until 10.10.2008	Chairman 10.10. to 30.11.2008			
	Chairman 10.10. to 30.11.2008				
Kurt F. Viermetz	Chairman until 10.10.2008	Chairman until 10.10.2008		Chairman 24.6. to 10.10.2008	
Dr. Renate Krümmer	Deputy Chairman 25.7.2008 to 31.3.2009		Member 5.7.2008 to 31.3.2009		
Francesco Ago	Member 18.6.[1] to 11.8.2008				
Prof Dr. Gerhard Casper	Member 18.6.[1] to 13.11.2008			Member 24.6. to 13.11.2008	
Johann van der Ende	Member 18.6.[1] to 17.11.2008				Member 24.6. to 17.11.2008
J. Christopher Flowers	Member 12.8.2008 to 27.3.2009	Member 12.8.2008 to 27.3.2009		Member 12.8.2008 to 27.3.2009	
Dr. Frank Heintzeler	Member until 17.11.2008		Member until 17.11.2008		Member 24.6. to 17.11.2008
Antoine Jeancourt-Galignani	Member until 24.7.2008		Member until 27.5.2008		
Dr. Thomas Kolbeck	Member 18.6.[1] to 17.11.2008		Member 24.6. to 17.11.2008		Chairman 24.6. to 17.11.2008
Dr. Pieter Korteweg	Member until 17.11.2008	Member until 17.11.2008			
Richard S. Mully	Member 25.7.2008 to 27.3.2009				Member 25.7.2008 to 27.3.2009
Maurice O'Connell	Member 18.6.[1] to 24.7.2008				
Thomas Quinn	Member until 17.11.2008		Member 28.5. to 17.11.2008		
Prof. Dr. Hans Tietmeyer	Member 18.6.[1] to 17.11.2008			Member 24.6. to 17.11.2008	

[1] Entry in the by-laws, appointed at the Annual General Meeting on 27.5.2008

Management Board of Hypo Real Estate Holding AG	
Name	**Function**
Dr. Axel Wieandt	Chairman from 13.10.2008
Manuela Better	Member from 1.2.2009
Dr. Kai Wilhelm Franzmeyer	Member from 13.10.2008
Frank Krings	Member from 20.10.2008
Georg Funke	Chairman until 7.10.2008
Cyril Dunne	Member until 31.1.2009
Dr. Markus Fell	Member until 19.12.2008
Thomas Glynn	Member until 31.12.2008
Dr. Robert Grassinger	Member until 31.1.2009
Bo Heide-Ottosen	Member until 29.9.2008
Frank Lamby	Member until 19.12.2008
Bettina von Oesterreich	Member until 31.1.2009

90 Holdings of Hypo Real Estate Holding AG

Holdings of Hypo Real Estate Holding AG as of 31.12.2008 Name and place of business	Interest in % Total Sec 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
Subsidiaries							
Consolidated subsidiaries							
Banks and financial institutions							
Domestic banks and financial institutions							
DEPFA Deutsche Pfandbriefbank AG, Eschborn	100.00	—	€	54,108,661	751,394	[1]	—
Hypo Real Estate Bank AG, Munich	100.00	—	€	198,088,601	963,992	−2,692,252	—
Foreign banks and financial institutions							
DEPFA ACS BANK plc, Dublin	100.00	100.00	€	96,066,678	714,214	88,309	—
DEPFA BANK plc, Dublin	100.00	—	€	203,907,546	−275,120	−631,879	—
DePfa-Bank Europe plc, Dublin	100.00	100.00	€	56,933	31,329	982	—
Hypo Pfandbrief Bank International S.A., Luxembourg	100.00	100.00	€	9,024,040	−16,610	14,250	—
Hypo Public Finance Bank puc, Dublin	99.99	99.99	€	3,069,913	542,607	−32,533	—
Hypo Public Finance USA Inc., New York	100.00	100.00	US $	1,449,283	106,105	15,573	—
Hypo Real Estate Capital Hong Kong Corporation Ltd., Hong Kong	100.00	100.00	HK $	799,330	−54,303	−23,011	—
Hypo Real Estate Capital India Corporation Private Ltd., Mumbai	100.00	100.00	INR	385,590	297,033	−31,944	—
Hypo Real Estate Capital Singapore Corporation Private Ltd., Singapore	100.00	100.00	SG $	721,590	823	−1,141	—
Other consolidated subsidiaries							
DEPFA Asset Management Romania S.A., Bucharest	90.00	90.00	€	1,345	1,340	6	—
DEPFA Bank Representacoes Ltda., São Paulo	100.00	100.00	€	3,014	327	59	—
DEPFA Finance N.V., Amsterdam	100.00	100.00	€	1,232,969	4,957	698	—
DEPFA First Albany Securities LLC, New York	100.00	100.00	US $	96,374	49,687	7,187	—
DEPFA Funding II LP, London	100.00	100.00	€	407,390	—	—	—
DEPFA Funding III LP, London	100.00	100.00	€	301,180	−232	−127	—
DEPFA Funding IV LP, London	100.00	100.00	€	519,703	—	—	—
DEPFA Hold Six, Dublin	100.00	100.00	US $	1	−1	−8	—
DEPFA Holdings B.V., Amsterdam	100.00	100.00	€	54	−116	−49	—
DEPFA Investment Bank Ltd. i.L., Nicosia	100.00	100.00	€	13,651	12,695	1,215	—

[1] Profit transfer by shareholders on the basis of profit and loss transfer agreements

Holdings of Hypo Real Estate Holding AG as of 31.12.2008	Interest in %						
Name and place of business	Total Sec 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
DEPFA Ireland Holding Ltd., Dublin	100.00	100.00	US $	368,938	−6,274	−242	—
Flint Nominees Ltd., London	100.00	100.00	GB £	187,681	60,564	5,525	—
Hypo Property Investment (1992) Ltd., London	100.00	100.00	GB £	1	1	—	—
Hypo Property Investment Ltd., London	100.00	100.00	GB £	362	362	10	—
Hypo Property Participation Ltd., London	100.00	100.00	GB £	241	237	10	—
Hypo Property Services Ltd., London	100.00	100.00	GB £	112	111	3	—
Hypo Real Estate Capital Corp., New York	100.00	100.00	US $	5,634,570	423,830	−2,856	—
Hypo Real Estate Capital Japan Corp., Tokyo	100.00	100.00	JP ¥	325,292,909	30,460,416	−252,223	—
Hypo Real Estate Finance B.V., Amsterdam	100.00	—	€	276	24	131	—
Hypo Real Estate International LLC I, Wilmington	100.00	100.00	€	361,362	66	41	—
Hypo Real Estate International Trust I, Wilmington	100.00	100.00	€	361,270	55	5	—
Hypo Real Estate Investment Banking Ltd., London	100.00	100.00	GB £	496	196	8	—
Hypo Real Estate Systems GmbH, Stuttgart	100.00	—	€	29,075	2,963	−917	—
Hypo Real Estate Transactions S.A.S., Paris	100.00	100.00	€	59,892	32	24	
IMMO Immobilien Management GmbH & Co. KG, Munich	94.00	94.00	€	27,008	−1,927	−3,991	—
Liffey Belmont I, LLC, Wilmington/Delaware	100.00	100.00	US $	16,281	1,021	—	—
Liffey Belmont II, LLC, Wilmington/Delaware	100.00	100.00	US $	21,520	1,350	—	—
Liffey Belmont III, LLC, Wilmington/Delaware	100.00	100.00	US $	17,993	1,128	—	—
Liffey NSYC, LLC, Wilmington	100.00	100.00	US $	41,460	2,600	—	—
Quadra Realty Trust, Inc., New York	100.00	100.00	US $	624,631	46,955	−13,600	—
Ragnarök Vermögensverwaltung AG & Co. KG, Munich	94.00	94.00	€	19,271	7,909	25,580	—
The Greater Manchester Property Enterprise Fund Ltd., London	100.00	100.00	GB £	135	133	5	—
The India Debt Opportunities Fund Ltd., Ebene/Mauritius	100.00	100.00	INR	3,883,304	3,883,304	1,020,358	—
WH-Erste Grundstücks GmbH & Co. KG, Schoenefeld	100.00	100.00	€	110,022	104,286	−5,249	—
WH-Zweite Grundstücks GmbH & Co. KG, Schoenefeld	100.00	100.00	€	70,010	67,374	−2,532	—
Zamara Investments Ltd., Gibraltar	100.00	100.00	GB £	11,586	11,586	586	—

Holdings of Hypo Real Estate Holding AG
as of 31.12.2008

Name and place of business	Interest in % Total Sec 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
Non-consolidated subsidiaries							
Other non-consolidated subsidiaries							
Collineo Asset Management GmbH, Dortmund	99.99	99.99	€	14,056	12,112	1,147	–
DBE Property Holdings Ltd., Dublin	100.00	100.00	€	67	56	–1	–
DEPFA Erste GmbH, Frankfurt/Main	100.00	100.00	€	–	–	–	–
DEPFA Hold Four Ltd., Dublin	100.00	100.00	€	–	–	–	–
DEPFA Hold One Ltd., Dublin	100.00	100.00	€	2,446	21	5	–
DEPFA Hold Three Ltd., Dublin	100.00	100.00	€	–	–	–	–
DEPFA Hold Two Ltd., Dublin	100.00	100.00	€	–	–	–	–
DEPFA Royalty Management Ltd., Dublin	100.00	100.00	€	52	52	–13	–
Frappant Altona GmbH, Munich	88.40	88.40	€	11,883	25	1)	–
FUNDUS Gesellschaft für Grundbesitz und Beteiligungen mbH, Munich	94.00	94.00	€	3,360	904	2)	–
GfI-Gesellschaft für Immobilienentwicklung und -verwaltung mbH i.L., Stuttgart	100.00	100.00	€	166	7	–54	1.1.–31.12.2007
Högni Portfolio GmbH, Munich	100.00	100.00	€	24	24	–1	1.1.–31.12.2007
Hypo Dublin Properties Limited, Dublin	100.00	100.00	€	338	29	23	–
Hypo Real Estate International LLC II, Wilmington/Delaware	100.00	100.00	US $	–	–	–	–
Hypo Real Estate International Trust II, Wilmington/Delaware	100.00	100.00	US $	–	–	–	–
Immo Immobilien Management Beteiligungsgesellschaft mbH, Munich	100.00	100.00	€	35	35	–1	–
IMMO Invest Real Estate GmbH, Munich	100.00	100.00	€	3,514	28	2)	–
IMMO Trading GmbH, Munich	100.00	100.00	€	1,817	525	2)	–
Meridies Grundbesitz- und Bebauungsgesellschaft mbH, Munich	94.00	94.00	€	724	78	2)	–
PBI-Beteiligungs-GmbH i.L., Munich	100.00	83.33	€	51,521	51,514	–34	1.1.–31.12.2007
Quadra QRS, LLC, Baltimore	100.00	100.00	US $	–	–	–	–
WestHyp Immobilien Holding Aktiv Bau GmbH, Munich	100.00	100.00	€	33	–27	37	1.1.–31.12.2007
WestHyp Immobilien Holding GmbH, Munich	100.00	100.00	€	882	734	105	1.1.–31.12.2007
WH-Erste Grundstücks Verwaltungs GmbH, Schoenefeld	100.00	100.00	€	307	295	244	–
WH-Zweite Grundstücks Verwaltungs GmbH, Schoenefeld	100.00	100.00	€	19	19	–6	–

1) Profit transferred by Meridies Grundbesitz- und Bebauungsgesellschaft mbH, Munich, on the basis of profit and loss transfer agreement
2) Profit transfer by shareholders on the basis of profit and loss transfer agreements

Holdings of Hypo Real Estate Holding AG as of 31.12.2008 Name and place of business	Interest in % Total Sec 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
Associated companies							
Minor associated companies							
Other companies							
Aerodrom Bureau Verwaltungs GmbH, Berlin	32.00	32.00	€	705	—	−44	1.1.–31.12.2006
Airport Bureau Verwaltungs GmbH, Berlin	32.00	32.00	€	665	—	−362	1.1.–31.12.2006
Archplan Projekt Dianastraße GmbH, Munich	33.20	33.20	€	192	−135	−24	1.1.–31.12.2007
Burleigh Court (Barnsley) Management Limited, London	20.00	20.00	GB £	—	—	—	—
Kondor Wessels – WestHyp Immobilien Holding GmbH, Berlin	33.30	33.30	€	740	−562	−55	1.1.–31.12.2007
Logicité S.A.S., Guyancourt	42.50	42.50	€	2,449	37	—	—
Projektentwicklung Schönefeld Verwaltungsgesellschaft mbH, Stuttgart	50.00	50.00	€	30	28	−1	1.1.–31.12.2007
Riedemannweg 59–60 GbR, Schoenefeld	32.00	32.00	€	11,446	−4,806	−49	1.1.–31.12.2007
SANO Grundstücks-Vermietungs-gesellschaft mbH & Co. Objekt Dresden KG, Duesseldorf	33.33	33.33	€	13,614	−4,122	−219	1.1.–31.12.2007
SOMA Grundstücks-Vermietungs-gesellschaft mbH & Co. Objekt Darmstadt KG, Duesseldorf	33.33	33.33	€	35,736	−7,797	−712	1.1.–31.12.2007
SP Projektentwicklung Schönefeld GmbH & Co. KG, Stuttgart	50.00	50.00	€	21,341	20,493	−9,070	1.1.–31.12.2007
Vierte Airport Bureau Center KG Airport Bureau Verwaltungs GmbH & Co., Berlin	32.00	32.00	€	11,452	−2,516	379	1.1.–31.12.2007
Wisus Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich	33.00	33.00	€	10,970	−3,182	164	—
Other investments							
Banks and other financial institutions							
Stuttgarter Volksbank AG, Stuttgart	0.18	0.18	€	2,238,854	145,044	4,102	1.1.–31.12.2007
Other companies							
Ägir Vermögensverwaltung GmbH & Co. KG, Munich	0.01	0.01	€	44,118	3	3,425	1.1.–31.12.2007
ARSAGO ACM GmbH, Frankfurt/Main	5.00	5.00	€	—	—	—	—
arsago Holding AG i.L., Huenenberg	5.00	5.00	€	—	—	—	—
Babcock & Brown Ltd., Sydney	2.20	—	AU $	2,574,650	1,960,234	119,687	1.1.–31.12.2007

Holdings of Hypo Real Estate Holding AG as of 31.12.2008	Interest in %						
Name and place of business	Total Sec 16 (4) Stock Corp. Act	of which held indirectly	Currency	Total asset in thousand	Equity in thousand	Net income/loss in thousand	Alternative financial year
Deutsches Theater Grund- und Hausbesitz GmbH, Munich	3.30	3.30	€	12,609	2,556	76	1.1.– 31.12.2007
ILLIT Grundstücks- und Verwaltungs-gesellschaft mbH & Co. KG, Gruenwald	5.00	5.00	€	67,625	−17,227	−2,531	1.1.– 31.12.2007
Inula Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Gruenwald	10.00	10.00	€	95,646	−45,703	1,284	1.1.– 31.12.2007
KOROS Grundstücks-Verwaltungs GmbH & Co. KG, Gruenwald	2.50	2.50	€	19,010	−8,697	432	1.1.– 31.12.2007
LEG Landesentwicklungsgesellschaft Nordrhein-Westfalen GmbH, Duesseldorf	> 0	> 0	€	1,199,162	119,448	−32,812	1.1.– 31.12.2007
WILMA Bouwfonds Bauprojekte GmbH & Co. "An den Teichen" KG, Ratingen	5.00	5.00	€	117	86	32	1.1.– 31.12.2006

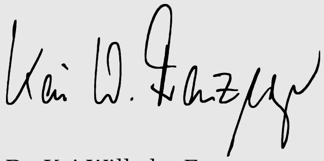
Exchange rates 1 € equates to		**31.12.2008**
Australia	AU $	2.0274
Great Britain	GB £	0.95250
Hong Kong	HK $	10.7858
India	INR	67.91844
Japan	JP ¥	126.14
Singapore	SG $	2.0040
USA	US $	1.3917

Munich, 28 March 2009

Hypo Real Estate Holding Aktiengesellschaft
The Management Board

Dr. Axel Wieandt (CEO)

Manuela Better



Dr. Kai Wilhelm Franzmeyer

Frank Krings

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 28 March 2009

Hypo Real Estate Holding Aktiengesellschaft
The Management Board

Dr. Axel Wieandt (CEO)

Manuela Better

Dr. Kai Wilhelm Franzmeyer

Frank Krings

Auditor's Report

We have audited the consolidated financial statements prepared by Hypo Real Estate Holding AG, Munich, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group Management Report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Hypo Real Estate Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion we refer to the passages in the Group Management Report concerning "Risk threatening the existence" ("Bestandsgefährdende Risiken") as well as in the notes under number two. There it is mentioned that the continuance of Hypo Real Estate Holding AG as a going concern is dependent on the assumption that sufficient equity will be provided to Hypo Real Estate Holding AG and their significant subsidiaries to fulfil regulatory capital requirements as well as to avoid a situation of sustained over-indebtedness. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries or Hypo Real Estate Holding AG itself. Such liquidity support must be available until Hypo Real Estate Holding AG and its significant subsidiaries are capable of raising sufficient liquidity via the money and capital market by themselves and the described restructuring plans are implemented as scheduled.

In order to ensure the continuance of Hypo Real Estate Holding AG and its significant subsidiaries as a going concern it is thus necessary that

- the German Finanzmarktstabilisierungsfonds provides sufficient support in the form of equity,
- the German Finanzmarktstabilisierungsfonds and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance,
- refinancing with sustainable conditions via the money and capital markets occurs,
- the restructuring plans will be implemented as scheduled
- the responsible authorities do not take regulatory actions, and
- no legal caveats (especially EU legal action) will be successfully enforced.

Munich, 9 April 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Dielehner	Wiechens
Wirtschaftsprüfer	Wirtschaftsprüfer

Service Chapter

Mandates of the Management Board

as of 27.3.2009	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Dr. Axel Wieandt Chairman from 13.10.2008	DEPFA Deutsche Pfandbriefbank AG, Eschborn (Member of the Supervisory Board from 9.12.2008; Chairman of the Supervisory Board from 12.12.2008)	DEPFA BANK plc, Dublin / Ireland (Non-Executive Chairman of the Board of Directors from 5.2.2009)
		Atradius N.V., Amsterdam / The Netherlands (Member of the Supervisory Board)
		Rasmallah Investments Ltd., Dubai / United Arab Emirates (Member of the Supervisory Board)
Manuela Better Member from 1.2.2009		Hypo Real Estate Capital Hong Kong Corporation Limited, Hong Kong (Member of the Board of Directors until 1.10.2008)
		Hypo Real Estate Capital Japan Corp., Tokyo / Japan (Member of the Board of Directors from 23.5.2008)
		Hypo Real Estate Capital Singapore Corporation Private Ltd., Singapore (Member of the Board of Directors until 1.10.2008)
		DEPFA Deutsche Pfandbriefbank AG, Eschborn (Member of the Supervisory Board from 1.2.2009)
Dr. Kai Wilhelm Franzmeyer Member from 13.10.2008	DEPFA Deutsche Pfandbriefbank AG, Eschborn (Member of the Supervisory Board from 9.12.2008)	DEPFA BANK plc, Dublin / Ireland (Non-Executive Director from 24.2.2009)
	Düsseldorfer Hypothekenbank AG, Duesseldorf 30.4.2008 to 27.3.2009)	Commerzbank International S.A., Luxembourg (Member of the Administrative Board until 19.12.2008)
		Commerz U.S. Financial Corporation, Wilmington / Delaware, USA (Non-Executive member of the Board of Directors until 21.11.2008)
		Commerzbank Overseas Finance N.V., Willemstad / Curaçao, Netherlands Antilles (Member of the Board of Directors until 21.11.2008)
		Commerzbank U.S. Finance, Inc., Wilmington / Delaware, USA (Member of the Board of Directors until 12.10.2008)
Frank Krings Member from 20.10.2008	DEPFA Deutsche Pfandbriefbank AG, Eschborn (Member of the Supervisory Board from 9.12.2008; Deputy Chairman of the Supervisory Board from 12.12.2008)	DEPFA BANK plc, Dublin / Ireland (Non-Executive member of the Board of Directors from 5.2.2009)
	Hypo Real Estate Bank International AG, Munich (Member of the Supervisory Board 22.10. to 27.11.2008)	Deutsche Bank S.p.A., Milan / Italy (Member of the Supervisory Board from 29.4.2008)
		Deutsche Bank Portugal S.A., Lisbon / Portugal (Member of the Supervisory Board until 31.12.2008)
		Deutsche Bank S.A.E., Barcelona / Spain (Non-Executive member of the Board of Directors until 19.12.2008)

Mandates of the Management Board

as of 27.3.2009	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Georg Funke Chairman until 7.10.2008	Hypo Real Estate Bank AG, Munich (Chairman of the Supervisory Board until 7.10.2008)	Hypo Public Finance Bank, Dublin / Ireland (Non-Executive Chairman of the Board of Directors until 7.10.2008)
	Hypo Real Estate Bank International AG, Munich (Chairman of the Supervisory Board until 7.10.2008)	DEPFA BANK plc, Dublin / Ireland (Non-Executive Chairman of the Board of Directors until 7.10.2008)
Cyril Dunne Member until 31.1.2009	Hypo Real Estate Systems GmbH, Munich (Chairman of the Supervisory Board until 10.2.2009)	DEPFA BANK plc, Dublin / Ireland (Non-Executive Chairman of the Board of Directors until 30.9.2008)
Dr. Markus Fell Member until 19.12.2008	Hypo Real Estate Bank AG, Munich (Deputy Chairman of the Supervisory Board until 6.12.2008)	Flint Nominees Limited, London / Great Britain (Director until 20.1.2009)
	Hypo Real Estate Bank International AG, Munich (First Deputy Chairman of the Supervisory Board until 27.11.2008)	Hypo Public Finance Bank, Dublin / Ireland (Non-Executive member of the Board of Directors until 20.1.2009)
	Hypo Real Estate Systems GmbH, Stuttgart (Member of the Supervisory Board until 10.2.2009)	DEPFA BANK plc, Dublin / Ireland (Non-Executive Deputy Chairman of the Board of Directors until 20.1.2009)
		Hypo Pfandbrief Bank International S.A., Luxembourg (Member of the Administrative Board until 20.1.2009)
Thomas Glynn Member until 31.12.2008	Collineo Asset Management GmbH, Dortmund (Chairman of the Administrative Board until 8.1.2009)	Collineo Asset Management USA Inc., New York / USA (Member of the Board of Directors until 31.3.2008)
		Hypo Capital Markets Inc., New York / USA (Non-Executive Chairman of the Board of Directors until 31.3.2008)
		Hypo Real Estate Capital Corporation, New York / USA (Non-Executive member of the Board of Directors)
		Quadra Realty Trust Inc., New York / USA (Non-Executive member of the Board of Directors from 14.3.2008)
		DEPFA First Albany Securities LLC, New York / USA (Non-Executive member of the Board of Directors from 15.4.2008)
Dr. Robert Grassinger Member until 31.1.2009		Hypo Pfandbrief Bank International S.A., Luxembourg (Chairman of the Administrative Board until 26.3.2008)
Bo Heide-Ottosen Member until 29.9.2008	DEPFA Deutsche Pfandbriefbank AG, Eschborn (Chairman of the Supervisory Board until 5.10.2008)	DEPFA ACS Bank, Dublin / Ireland (Chairman of the Supervisory Board until 29.9.2008)
		DEPFA First Albany Securities LLC, New York / USA (Non-Executive member of the Board of Directors until 29.9.2008)
		Hypo Pfandbrief Bank International S.A., Luxembourg (Chairman of the Administrative Board 26.3. to 29.9.2008)

Mandates of the Management Board

as of 27.3.2009	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Frank Lamby Member until 19.12.2008	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board until 6.12.2008)	Flint Nominees Ltd., London / Great Britain (Non-Executive member of the Board of Directors until 31.12.2008)
		Hypo Property Services Ltd., London / Great Britain (Non-Executive member of the Board of Directors until 31.12.2008)
		Hypo Property Investment Ltd., London / Great Britain (Non-Executive Chairman of the Board of Directors until 31.12.2008)
		The Greater Manchester Property Enterprise Fund Ltd., London / Great Britain (Non-Executive Chairman of the Board of Directors until 31.12.2008)
		Hypo Property Investment (1992) Ltd., London / Great Britain (Non-Executive Chairman of the Board of Directors until 31.12.2008)
		Hypo Real Estate Investment Banking Ltd., London / Great Britain (Non-Executive Chairman of the Board of Directors until 31.12.2008)
		Hypo Property Participation Ltd., London / Great Britain (Non-Executive Chairman of the Board of Directors until 31.12.2008)
		Hypo Real Estate Capital India Corporation Private Ltd., Mumbai / India (Non-Executive member of the Board of Directors until 31.12.2008)
Bettina von Oesterreich Member until 31.1.2009	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board until 6.12.2008)	Hypo Public Finance Bank, Dublin / Ireland (Non-Executive member of the Board of Directors until 8.12.2008)
	DEPFA Deutsche Pfandbriefbank AG, Eschborn (Member of the Supervisory Board; Deputy Chairman 12.3. to 20.10.2008; Chairman 20.10. to 12.12.2008)	Quadra Realty Trust Inc., New York / USA (US REIT) (Non-Executive member of the Board of Directors until 14.3.2008)
		DEPFA BANK plc, Dublin / Ireland (Non-Executive member of the Board of Directors until 8.12.2008)

Mandates of the Supervisory Board

as of 27.3.2009	Principal activity	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Dr. Michael Endres Member from 17.11.2008 Deputy Chairman from 6.12.2008	Chairman of the Management Board of Gemeinnützige Hertie-Stiftung, Frankfurt/Main	Hypo Real Estate Bank AG, Munich (Chairman of the Supervisory Board from 6.12.2008)	
		Landesbank Berlin Investment GmbH, (Member of the Supervisory Board)	
Bernhard Walter Member from 17.11.2008 Deputy Chairman from 6.12.2008	Member of the Supervisory Board and Chairman of the Audit Committee of Daimler AG, Stuttgart	Henkel AG & Co. KGaA, Duesseldorf (Member of the Supervisory Board; Chairman of the Audit Committee)	
		Bilfinger Berger AG, Mannheim (Member of the Supervisory Board; member of the Audit Committee)	
		Deutsche Telekom AG, Bonn (Member of the Supervisory Board; Chairman of the Audit Committee and of the Finance Committee)	
Bernd Knobloch Member from 17.11.2008	Member of the Management Board of Gemeinnützige Hertie Stiftung, Frankfurt/Main	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board from 6.12.2008)	
Dr. Edgar Meister Member from 17.11.2008	Member of the Supervisory Board of DWS Investment GmbH, Frankfurt/Main (from 3.4.2008)	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board from 6.12.2008)	
Siegmar Mosdorf Member from 17.11.2008	Partner of CNC AG, Berlin	Börsenverein des Deutschen Buchhandels Beteiligungsgesellschaft mbH, Frankfurt/Main (Member of the Supervisory Board)	
		Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), Cologne (Member of the Supervisory Board)	
		Skytec AG, Munich (Member of the Supervisory Board)	
Hans-Jörg Vetter Member from 17.11.2008	Chairman of the Management Board of Landesbank Berlin AG and Landesbank Berlin Holding AG, Berlin	Hypo Real Estate Bank AG, Munich (Member of the Supervisory Board from 6.12.2008)	
		Berlin-Hannoversche Hypothekenbank AG, Berlin (Chairman of the Supervisory Board)	
		GfBI Gesellschaft für Beteiligungen und Immobilien mbH, Berlin (Chairman of the Supervisory Board)	
		DekaBank Deutsche Girozentrale, Frankfurt/Main (Member of the Administrative Board)	
Manfred Zaß Member from 17.11.2008	Chairman of the Supervisory Board of Deutsche Euroshop AG, Hamburg		

Mandates of the Supervisory Board

as of 27.3.2009	Principal activity	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Prof. Dr. Klaus Pohle Member until 30.11.2008 Deputy Chairman until 10.10.2008 Chairman 10.10. to 17.11.2008	Member of the Supervisory Board and Chairman of the Audit Committee of DWS Investment GmbH, Frankfurt/Main		COTY Inc., New York / USA (Non-Executive member of the Board of Directors; Chairman of the Audit Committee)
			Sanofi-Aventis SA, Paris / France (Member of the Administrative Board; Chairman of the Audit Committee)
Kurt F. Viermetz Chairman until 10.10.2008	Member of the Supervisory Board of KfW IPEX-Bank GmbH, Frankfurt/Main	Deutsche Börse AG, Frankfurt/Main (Chairman of the Supervisory Board until 8.12.2008)	
Dr. Renate Krümmer Deputy Chairman 25.7.2008 to 31.3.2009	Managing Director of J. C. Flowers & Co GmbH, Hamburg (until 31.3.2009)	No current mandates existing	
Francesco Ago Member 18.6.[1] to 11.8.2008	Lawyer, Partner Chiomenti Studio Legale, Rome / Italy		Acotel Group S.p.A., Rome / Italy (Non-Executive member of the Board of Directors; Chairman of the Audit Committee and the Compensation Committee)
			Stichting Continuiteit ST, Amsterdam / The Netherlands (Non-Executive member of the Board of Directors)
Prof. Dr. Gerhard Casper Member 18.6.[1] to 13.11.2008	Professor of Law Stanford University, Stanford / USA	No current mandates existing	
Johan van der Ende Member 18.6.[1] to 17.11.2008	Chief Investment Officer of PGGM, Zeist / The Netherlands		Amvest NV, Amsterdam / The Netherlands (Member of the Supervisory Board)
J. Christopher Flowers Member 12.8.2008 to 27.3.2009	Chairman and Chief Executive Officer of J. C. Flowers & Co. LLC, New York / USA	HSH Nordbank AG, Hamburg (Member of the Supervisory Board)	The Enstar Group, Ltd., Bermuda (until 2007 The Enstar Group, Inc.) (Non-Executive Chairman of the Board of Directors)
			Shinsei Bank Ltd., Tokyo / Japan (Non-Executive Chairman of the Board of Directors)
			NIBC Holdings NV, Den Haag / The Netherlands (Member of the Supervisory Board until 2/2009)
			Fox-Pitt Kelton Cochran Caronia Waller, London / Great Britain and New York / USA (Non-Executive Chairman of the Board of Directors until 1/2009)
			The Kessler Group, Boston / USA (Non-Executive Chairman of the Board of Directors)

[1] Entry in the by-laws, appointed at the Annual General Meeting on 27.5.2008

Mandates of the Supervisory Board

as of 27.3.2009	Principal activity	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Dr. Frank Heintzeler Member until 17.11.2008	Member of the Supervisory Board of Baden-Württembergische Bank, Stuttgart	Walter AG, Tuebingen (Chairman of the Supervisory Board)	
		Dr. Haas GmbH, Mannheim (Mannheimer Morgen) (Chairman of the Advisory Board)	
		L-Bank – Landeskreditbank Baden-Württemberg, Karlsruhe and Stuttgart (Member of the Advisory Board)	
Antoine Jeancourt-Galignani Member until 24.7.2008	Non-Executive member of the Board of Directors of Gecina S.A., Paris / France		Société Nationale d'Assurances Group S.A.L., Beirut / Lebanon (Non-Executive Chairman of the Board of Directors until 6/2008)
			Euro Disney S.C.A., Marne-La-Vallée / France (Chairman of the Supervisory Board)
			Société Générale S.A., Paris / France (Non-Executive member of the Board of Directors until 27.5.2008)
			Total S.A., Paris / France (Non-Executive member of the Board of Directors)
			Kaufman & Broad S.A., Paris / France (Non-Executive member of the Board of Directors)
			Oddo & Cie S.C.A., Paris / France (Member of the Supervisory Board)
Dr. Thomas M. Kolbeck Member 18.6.[1] to 17.11.2008	Member of the Supervisory Board of Droege International Group AG, Duesseldorf		

[1] Entry in the by-laws, appointed at the Annual General Meeting on 27.5.2008

Mandates of the Supervisory Board

as of 27.3.2009	Principal activity	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Dr. Pieter Korteweg Member until 17.11.2008	Senior Advisor and Deputy Chairman Cerberus Global Investment Advisors, LLC, New York / USA		DaimlerChrysler Nederland B.V., Utrecht / The Netherlands (Member of the Supervisory Board)
			Aozora Bank Ltd., Tokyo / Japan (Non-Executive member of the Board of Directors until 26.6.2008)
			Development Fund Netherlands Antilles (SONA), Den Haag / The Netherlands (Non-Executive member of the Board of Directors until 22.4.2008)
			AerCap Holdings N.V., Schiphol / The Netherlands (Chairman of the Board of Directors)
			BAWAG P.S.K. Bank, Vienna / Austria (Member of the Supervisory Board)
			Showa Jisho Co. Ltd, Tokyo / Japan (Non-Executive member of the Board from 27.6.2008)
Richard S. Mully Member 25.7.2008 to 27.3.2009	Managing Partner Grove International Partners (UK) LLP, London / Great Britain	Alstria Office REIT AG, Hamburg (Member of the Supervisory Board)	Hansteen Holdings plc, London / Great Britain (Non-Executive member of the Board of Directors)
			Spazio Investments NV, Amsterdam / The Netherlands (Non-Executive member of the Board of Directors)
			B.V. MEDGroup Leisure Investments, Amsterdam / The Netherlands (Member of the Board of Directors until 23.12.2008)
			Karta Realty Limited, Cayman Islands (Member of the Board of Directors)
			SI Real Estate Holding B.V., Amsterdam / The Netherlands (Member of the Board of Directors)
			Event Hospitality Group B.V., Amsterdam / The Netherlands (Member of the Supervisory Board from 1.4.2008)
			Hellenic Land Holdings B.V., Amsterdam / The Netherlands (Member of the Board of Directors)

Mandates of the Supervisory Board as of 27.3.2009	Principal activity	Positions held on other statutory Supervisory Boards of German companies	Memberships of comparable controlling bodies of commercial enterprises in Germany and in other countries
Richard S. Mully, continuation			Polish Investments Real Estate Holding B.V., Amsterdam / The Netherlands (Member of the Board of Directors)
			Polish Investments Real Estate Holding II B.V., Amsterdam / The Netherlands (Member of the Board of Directors)
			Nowe Ogrody Sp. z o.o., Warsaw / Poland (Member of the Board of Directors)
			Nowe Ogrody 2 Sp. z o.o., Warsaw / Poland (Member of the Board of Directors)
			Nowe Ogrody 3 Sp. z o.o., Warsaw / Poland (Member of the Board of Directors)
			Nowe Ogrody 4 Sp. z o.o., Warsaw / Poland (Member of the Board of Directors)
			Apellas Holdings NV, Amsterdam / The Netherlands (Member of the Board of Directors)
Maurice O'Connell Member 18.6.[1] to 24.7.2008	Member of the Board of Directors of ISEQ Exchange Traded Fund plc, Dublin/Ireland		
Thomas Quinn Member until 17.11.2008	Global Head of UBS Real Estate Investment Management Group, Geneva / Switzerland	No current mandates existing	
Prof. Dr. Dr. h.c. mult. Hans Tietmeyer Member 18.6.[1] to 17.11.2008	Chairman of the Supervisory Board of Hauck & Aufhäuser Privatbankiers KGaA., Frankfurt/Main and Munich	DWS Investment GmbH, Frankfurt/Main (Member of the Supervisory Board until 4.4.2008)	Bank für Internationalen Zahlungsausgleich, Basle / Switzerland (Deputy Chairman of the Supervisory Board)
		BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg (Member of the Supervisory Board)	

[1] Entry in the by-laws, appointed at the Annual General Meeting on 27.5.2008

Dr. Axel Wieandt
Chairman of the Management Board
from 13 October 2008

Date and Place of Birth

19 September 1966 in Bochum

Professional Career

05/1993–07/1997	McKinsey & Company Inc., Duesseldorf and Boston MA/USA Associate, Senior Associate Engagement Manager/Senior Engagement Manager, Financial Institutions Group
08/1997–03/1998	Morgan Stanley & Co. Ltd., London/Great Britain Senior Associate, M&A/Corporate Finance, Financial Institutions Group
04/1998–10/2008	Deutsche Bank AG, Frankfurt/Main Global Head Corporate Strategy, Headquarters Frankfurt, Strategic Planning/Controlling
12/1999–03/2000	Deutsche Asset Management International GmbH and Deutsche Asset Management Europe GmbH, Frankfurt/Main Managing Director, Marketing, Sales, Business Development Europe ex Germany
04/2000–10/2008	Deutsche Bank AG, Frankfurt/Main Divisional Board Member Corporate Center, Head of Staff Division Corporate Development
02/2003–10/2008	additionally: Global Head of Group Division Corporate Investments Industrial Holdings, Private Equity (Late Stage, Venture Capital, Funds, Secondaries), Real Estate other Corporate Investments; Deputy Chairman Group Investment Committee, Member Capital and Risk Committee, Corporate and Investment Bank Principal Investment Commitment Committee and Dual Shareholder Creditor Risk Committee
from 10/2008	Chairman of the Management Board of Hypo Real Estate Holding AG, Munich
from 10/2008	Chairman of the Management Board of Hypo Real Estate Bank AG, Munich

Supervisory Board Membership and equivalent Mandates

DEPFA Deutsche Pfandbriefbank AG, Eschborn
Member of the Supervisory Board (from 9.12.2008), Chairman of the Supervisory Board (from 12.12.2008)

DEPFA BANK plc, Dublin/Ireland
Non-Executive Chairman of the Board of Directors (from 5.2.2009)

Atradius N.V., Amsterdam/The Netherlands
Member of the Supervisory Board

Rasmallah Investments Ltd., Dubai/United Arab Emirates
Member of the Supervisory Board

Manuela Better
Member of the Management Board
from 1 February 2009

Date and Place of Birth	11 November 1960 in Munich	
Professional Career	10/1988–01/1990	Trainee (Real Estate Department) in Frankfurt and London/Great Britain
	10/1988–09/2003	HVB Group and its predecessors
	01/1990–09/1998	Bayerische Vereinsbank AG, Munich
	02/1990–04/1992	Specialist, International Real Estate Financing Department (Real Estate Business UK)
	05/1992–12/1993	Office Manager, International Real Estate Financing Department
	01/1994–09/1998	Head of International Real Estate Financing Department
	10/1998–12/2003	FGH Bank, Utrecht / The Netherlands
	10/1998–12/1999	Head of Business Development, IT and Special Projects
	01/2000–12/2003	Member of the Management Board
	from 10/2003	Hypo Real Estate Group
	01/2004–03/2007	Hypo Real Estate Bank AG, Munich, Member of the Management Board
	04/2007–09/2008	Hypo Real Estate Bank International AG, Stuttgart, Hong Kong, Member of the Management Board, Head of Commercial Real Estate Origination Asia
	from 10/2008	DEPFA BANK plc, Dublin/Ireland, Executive member of the Board of Directors, Chief Risk Officer
	from 2/2009	Hypo Real Estate Holding AG, Munich Member of the Management Board, Chief Risk Officer
	from 2/2009	Hypo Real Estate Bank AG, Munich Member of the Management Board, Chief Risk Officer
Supervisory Board Memberships and equivalent Mandates	DEPFA Deutsche Pfandbriefbank AG, Eschborn Member of the Supervisory Board (from 1.2.2009)	
	Hypo Real Estate Capital Japan Corp., Tokyo/Japan Member of the Board of Directors (from 23.5.2008)	

Dr. Kai Wilhelm Franzmeyer
Member of the Management Board
from 13 October 2008

Date and Place of Birth	24 November 1963 in Minden	
Professional Career	from 01/1992	Commerzbank AG, Frankfurt / Main
	01/1992–09/1996	Group Syndication Department, Group Finance Department, Group Strategy Department
	10/1996–08/1998	Wood & Co. / Wood Commerz, Prague/Czech Republic (CEE Fixed-Income-Products) Member of the Executive Management
	09/1998–01/2001	IR-Swap Desk, Group Division Global Securities
	02/2001–05/2002	Global Head of Treasury Derivatives Trading
	06/2002–05/2006	Global Head of Liquidity and Balance Sheet Management
	06/2006–09/2008	Global Head/Group Treasurer
	from 10/2008	Hypo Real Estate Holding AG, Munich Member of the Management Board
	from 12/2008	Hypo Real Estate Holding AG, Munich Member of the Management Board
Supervisory Board Memberships and equivalent Mandates	DEPFA Deutsche Pfandbriefbank AG, Eschborn Member of the Supervisory Board (from 9.12.2008)	
	DEPFA BANK plc, Dublin / Ireland Non-Executive Director (from 14.2.2009)	
	Düsseldorfer Hypothekenbank AG, Duesseldorf Member of the Supervisory Board (from 30.4.2008)	

Frank Krings
Member of the Management Board
from 20 October 2008

Date and Place of Birth	16 April 1972 in Cologne	
Professional Career	09/1996	Deutsche Bank Group
	02/1997–09/1997	Deutsche Morgan Grenfell Inc., New York/USA Global Corporates & Institutions Division Operations & Technology Management
	10/1997–10/2008	Deutsche Bank AG, Frankfurt/Main
	10/1997–03/1998	Global Custody Services Division
	04/1998–12/1998	Retail & Private Banking Division
	01/1999–10/2004	Staff Division Corporate Development
	02/2002	Managing Director; Chief of Staff
	02/2003	Chief Operating Officer of Corporate Investments; Managing Director in Corporate Development
	01/2004	Deputy Global Head Corporate Investments; Managing Director Corporate Development
	11/2004–10/2008	Chief Operating Officer Europe, Deutsche Bank Group; Member of the Management Committee Germany, Chairman of the Operating Committee Germany, Chief Operating Officer Regional Management; Member of the Regional Management Executive Committee
	from 10/2008	Hypo Real Estate Holding AG, Munich Member of the Management Board and Chief Operating Officer
	from 10/2008	Hypo Real Estate Bank AG, Munich Member of the Management Board and Chief Operating Officer

Supervisory Board Memberships and equivalent Mandates

DEPFA Deutsche Pfandbriefbank AG, Eschborn
Member of the Supervisory Board (from 9.12.2008),
Deputy Chairman of the Supervisory Board (from 12.12.2008)

Deutsche Bank S.p.A., Milan/Italy
Member of the Supervisory Board (from 29.4.2008)

DEPFA BANK plc, Dublin/Ireland
Non-Executive member of the Board of Directors (from 5.2.2009)

Dr. Michael Endres
Member of the Supervisory Board from 17 November 2008
Chairman of the Supervisory Board from 6 December 2008

Date and Place of Birth	28 October 1937 in Munich	
Professional Career	1966–1967	Wacker Chemie, Munich Legal Department
	1968–1998	Deutsche Bank AG, Frankfurt / Main
	1968–1972	Special training in credit business, Munich Branch
	1972–1975	Personal Assistant to Dr. Ehret, Member of the Management Board
	1975–1977	Co-Head, Ulm Branch
	1977–1982	Managing Director, Mannheim Branch
	1982–1985	Coordination Group for Strategic Development, Managing Director, Headquarters Frankfurt / Main
	1985–1988	Managing Director, Deutsche Bank Capital Markets Ltd, London/Great Britain
	1988–1998	Member of the Management Board, Responsible for Commercial Real Estate, IT/Operations, Legal

Supervisory Board Memberships and equivalent Mandates

Hypo Real Estate Bank AG, Munich
Chairman of the Supervisory Board

Gemeinnützige Hertie-Stiftung, Frankfurt / Main
Chairman of the Management Board

Landesbank Berlin Investment GmbH, Berlin
Member of the Supervisory Board

Advanced approach Under the advanced approach method, a bank with a sufficiently developed internal capital allocation procedure (strict criteria in terms of methodology and disclosure) is permitted to use its internal assessments regarding the credit standing of a debtor when assessing the lending risk within its portfolio.
There are specialised analysis procedures for different types of loan commitments – e.g. loans to companies and retail customers – that exhibit different loss characteristics.

Asset/liability management Measures by a bank to control the balance sheet structure and to limit the risks resulting from differences in time periods and insufficient liquidity.

Asset-Backed security A bond or note that is based on pools of assets.

Assets book Risk-carrying positions that are not allocated to the →trading book.

Asset finance Asset finance is funding to acquire additional assets to drive a business forward. Virtually any asset can be financed including IT, software, refurbishment, machinery, etc.

Available-for-sale assets Financial assets that are available for the company to sell and that do not relate to loans, financial instruments held for trading or →held-to-maturity financial instruments. Available-for-sale financial instruments include in particular fixed-income securities that cannot or should not be held to maturity and also equity instruments with no final maturity.

Basle II The term Basle II stands for a new capital adequacy framework, which was presented by the Basle Committee on Banking Supervision in summer 2004. The committee meets on a regular basis at the Bank for International Settlements (BIS) and is formed by representatives of the central banks and banking supervisors of the major developed nations. It gives general strategic recommendations on the framework and standards for banking supervision. In comparison to the first capital adequacy framework (Basle I) from 1988, Basle II will define new general conditions for the measurement of risk-weighted assets and the minimum capital requirements for credit institutions.

BIS Bank for International Settlements headquartered in Basle; as the central bank of the central banks, it is in particular responsible for cross-border banking supervision and for the establishment of internationally valid equity capital requirements for supraregionally operating banks.

BIS equity funds Equity capital that is recognised for regulatory purposes and complies with the Recommendation on Equity issued by the Basle Committee for Banking Supervision in July 1988 (last amended in January 1996) for financial institutes operating on the international stage. It comprises liable equity capital (core capital and supplementary capital) and Tier III capital:

- Core capital or Tier I capital: largely subscribed capital, reserves and certain hybrid capital instruments.
- Supplementary capital or Tier II capital: includes in particular participatory capital, long-term subordinated liabilities, unrealised gains from listed securities and other valuation adjustments for inherent risks.
- Tier III capital: mainly comprises short-term subordinated liabilities and surplus supplementary capital.

Bonds Term used in English-speaking countries for fixed-income securities and/or debentures.

Calculated mortgage lending value, also: loan-to-value (LTV) Relationship between the funds loaned to the borrower and the value of the collateral.

Capacity to meet interest payments Degree to which the rental income from a financed building must, in long-term financing, at least cover the interest service payments. Ratio: DSC (debt service coverage).

Cash flow Equals cash receipts minus cash payments over a given period of time.

Cash-flow hedge Security against the risk of loss of future interest payments under a variable-interest balance sheet transaction obtained by means of a →swap.

Collateralised Debt Obligation (CDO) Collateralised Debt Obligations (CDOs) represent a segment of →asset-backed securities. It represents a debenture bond that is secured by a diversified debt portfolio. A collateralised debt obligation is usually divided into different slices of varying creditworthiness. Usually CDOs are classified according to the object of their investment. If debenture bonds are sold, then one is dealing with so-called cash CDOs – if, however, instead of real bonds their risks alone are sold, these are called synthetic CDOs.

Commercial mortgage-backed security (CMBS) A type of →mortgage-backed security (MBS) on commercial real estate.

Commercial paper (CP) Money market instruments in the form of bearer instruments that do not have standardised maturities but can be geared to individual investment requirements and are paid on a discount basis. Their maturities vary between 1 and 270 days. They are issued on the money market by debtors with an irreproachable credit standing, usually first-class industrial corporations; they are issued in high amounts and with high minimum nominal values.

Concentration risk Risk resulting from concentration of the credit risk on a single party (counterparty, issuer, country or borrowing customer) in the portfolio or among a group of parties that over a period of time exhibit a parallel development in terms of probability of default caused, for example, by similar economic dependencies. Synonym: cluster risk.

Corporate governance Corporate governance refers to the legal and factual framework for managing and monitoring companies. The recommendations of the Corporate Governance Code create transparency and are intended to strengthen confidence in a good and responsible management; they are primarily aimed at protecting shareholders.

Cost-income ratio Relationship between general administrative expenses and the total of net interest income and similar income, net commission income, net trading income, net income from investments and balance of other operating income/expenses; a low cost-income ratio indicates high productivity.

Counterparty risk Risk that, as a result of default on the part of a contracting partner, it will no longer be possible to collect an unrealised profit from outstanding interest and currency-related derivative and futures transactions. The counterparty risk is differentiated according to performance risk (from the value date until performance) and exchange/pre-settlement risk (from the date of conclusion until the value date).

Country risk Risk that a business partner in a certain country will be unable to fulfil his contractually agreed obligations due to political or social unrest, nationalisation or expropriation, non-recognition by governments of foreign debts, currency controls or a devaluation of the national currency.

Credit default swap (CDS) Financial contract where the risk of a credit event that is specified in advance (e.g. insolvency or deterioration in credit standing) is transferred by an assignee to a guarantor. Irrespective of whether or not the credit event materialises, the guarantor receives a regular premium payment from the assignee for assuming the lending risk.

Credit derivatives Derivative financial instruments that allow one party to the transaction (assignee) to transfer the lending risk relating to a loan or a security to another party (guarantor) against payment of a premium. The risk purchaser therefore bears the lending risk relating to the loan or security without actually having to purchase it (e.g. →credit default swap, →total return swap or →credit-linked note).

Credit-linked notes (CLN) A note issued by an assignee that is only repaid at the nominal value on maturity if a previously specified credit event does not materialise on the side of the debtor. If the credit event does actually occur, the credit-linked note is repaid after deducting the agreed compensatory amount. In contrast to credit default swaps and total return swaps, the guarantor receives his monetary payment in advance from the assignee.

Credit risk Credit risks include the loan default risk, counterparty risk, issuer risk and country risk; they refer to the potential loss that could result from the default or deterioration in credit ratings of loan customers, of issuers of borrowers' note loans, promissory notes and debt securities, or of counterparties in money market, securities and derivatives transactions.

DAX Measures the performance of Germany's 30 largest companies within the Prime Standard segment in terms of order-book sales and market capitalisation. The index is based on the prices of the Xetra electronic trading system. Calculation commences at 9.00 a.m. and ends with the prices from the Xetra closing auction that starts at 5.30 p.m.

Debt service coverage margin Relationship between the net income that can be earned from a property and the debt service applicable to the property in question.

Default probability Expected average probability that a business partner will fail to fulfil his obligations, based on statistical analyses of historic default patterns.

Default risk Risk of partial or total loss of a loan.

Deferred compensation An arrangement in which a portion of the wage is paid out at a date after which that income is actually earned.

Deferred taxes Taxes on income that are payable or receivable at a future date and that result from different carrying amounts being shown in the financial and commercial balance sheets. On the reporting date, they do not yet represent actual receivables or liabilities vis-à-vis tax authorities.

Developer Developers develop and execute real estate projects (generally large commercial projects) with the aim of securing a swift sale.

Dow Jones EURO STOXX 50 A European blue-chip index. It contains the 50 leading stocks within the Euro zone.

Dow Jones Industrial Average (DJIA) Index The broadest market indicator showing the performance of the Unit-ed States' New York Stock Exchange. A price index comprising the weighted average of 30 actively traded blue-chip stocks, mainly industrial stocks.

Due diligence here: detailed analysis of real estate properties in terms of possible risks present (e.g. soil and groundwater contamination).

D & O Insurance (Directors and Officers Insurance) Protects against legal claims for wrongful acts performed by corporate directors or officers in performing their corporate duties. Wrongful acts include omissions, errors, misstatements, misleading statements, neglect or breach of duty.

Earnings per share Indicator comparing the net income for the year after taxes with the average number of ordinary shares.

Fair value Amount at which an asset would be exchanged or a debt settled between expert, independent, willing business partners; often identical with the market price.

Fair-value hedge Hedging of a fixed-income balance sheet position (e.g. a receivable or a security) against the market risk by means of a →swap; it is valued at market value (→fair value).

Financial Market Stabilisation Act (FMStG) This was fast-tracked through Parliament on 17 October 2008. The act enables a package of measures to be implemented for stabilising the financial market. The main component of the act is the establishment of the financial market stabilisation fund.

Financial market stabilisation fund (SoFFin) This was created by the Financial Market Stabilisation Act on 17 October 2008. The aim of the fund is to stabilise the German financial system, to overcome the liquidity shortages and to strengthen the capital base of financial companies. The range of services provided by the fund includes the provision of guarantees (up to € 400 billion) as well as recapitalisation and risk acceptance (up to € 70 billion). These stabilisation measures can be granted until 31 December 2009.

Financial instruments This term is in particular used to summarise credits and loans extended, interest-bearing securities, shares, participating interests, liabilities and derivatives.

Forward transactions The purchase/sale of financial instruments on a fixed date and at a fixed price; a distinction is made between contingent forward transactions (→options) and unconditional forward transactions (→futures). In contrast to spot transactions, the date when the contract is concluded and the date of performance for the contract are different.

Futures Contracts that are standardised in terms of volume, quality and settlement date under which a trading item belonging to the money market, investment market, precious metals market or currency market is to be delivered or purchased on a specific future date at the specified market price. In many cases, a balancing payment has to be effected in place of delivering or purchasing securities.

German Minimum Requirements for the Conduct of Lending Business (MaK) Minimum requirements that must be met by all lending institutes in order to limit risks from lending business, taking into account the respective type and extent of business conducted.

German Minimum Requirements for the Conduct of Trading Operations (MaH) Minimum requirements that must be complied with by all financial institutes in order to secure solvency and must be supplemented/specified in more detail in internal instructions, taking into account the respective type and extent of trading activities. They include requirements with regard to risk control and risk management, the organisation of trading operations and auditing, as well as regulations for specific transaction types. They were issued in October 1995 by the Federal Banking Supervisory Office (BaKred), which is now known as the Federal Financial Supervisory Office (BaFin).

Goodwill Amount that a purchaser of a company pays in excess of the →fair value of the individual assets after deducting debts (=intrinsic value), taking into account future expected earnings (=net income value).

Hedge accounting Depiction of contrary developments in the values of a hedging transaction (e.g. an interest rate swap) and an underlying transaction (e.g. a loan). Hedge accounting aims to minimise the impact on the income statement of the valuation and the recording of valuation results from derivative transactions where such valuation and recording affects net profit or loss.

Hedging Transactions aimed at protecting against the risk of unfavourable price trends (e.g. currency and interest rate risks). A matching position is set up for each position, so that the risk is offset either in whole or in part.

Held to maturity (HtM) Financial assets acquired by third parties that have a fixed maturity and fixed or determinable payments, where the holder intends or is able to hold the asset until final maturity.

Hybrid capital instruments Investment instruments that are characterised by profit-related interest payments. Where interest payments that have not been made when losses have occurred are not paid at a later date (noncumulative hybrid capital instruments) and the instruments do not have a fixed maturity date and/or cannot be terminated by the creditor, then in accordance with regulatory requirements such instruments belong to the core capital. In all other cases, they must be allocated to the supplementary capital (e.g. cumulative hybrid capital instruments).

International Accounting Standards (IAS) Accounting standards issued by the IASC (International Accounting Standards Committee), a specialist international organisation backed by professional associations that deal with accounting issues. The aim is to develop transparent and comparable international accounting systems.

International Financial Reporting Standards (IFRS) The IFRS include the present International Accounting Standards (→IAS) and the interpretations of the Standing Interpretations Committee as well as all standards and interpretations issued in future by the IASB (International Accounting Standards Board).

Issuer risk Losses of own-portfolio securities due to a deterioration in the credit standing of or default on the part of an issuer.

Lending risk Risk that a business partner will not fulfil his contractual payment obligations. The lending risk includes →default, →country and settlement risks.

Liquidity facility The obligation to provide liquidity to a contract partner. The purpose of the liquidity facility is to ensure that the payments are forwarded smoothly and on time. It provides a cushion for the risk if any payment problems arise. Regulatory conditions are attached to the drawing of a liquidity facility.

London Interbank Offered Rate - LIBOR Benchmark rate in interbank operations, which is determined daily by the main international banks of the British Banker's Association in London. Banks are able to raise funds or be offered funds from other banks on the basis of the rates.

Loss-given-default (LGD) LGD is the fraction of exposure at default that will not be recovered following default.

Market risk Results from uncertainty surrounding changes in market prices and rates (including interest rates, share prices, exchange rates and commodity prices) and also from the correlations between them and their levels of volatility.

Market risk position The market risk position pursuant to Principle I includes foreign currency, commodity and options risks as well trading-book risk positions such as risks relating to interest rates and share prices as well as →credit risks pertaining to the trading book.

MDAX Contains the securities of the 50 Prime Standard companies from traditional sectors ranking after the companies listed in the DAX index in terms of order book sales and market capitalisation (midcaps). The index is based on the prices of the Xetra electronic trading system. Calculation commences at 9.00 a.m. and ends with the prices from the Xetra closing auction that starts at 5.30 p.m.

Medium-term notes (MTNs) Debenture programme for the issue of unsecured debt instruments at different times. Volume, currency and term (one to ten years) can be adapted according to funding requirements.

Mezzanine finance Term used to describe forms of finance that have characteristics of both debt and equity.

Monoliner A monoline insurer, in the context of financial markets, guarantees the repayment of bonds.

Mortgage-backed securities (MBS) Securitisation of mortgage loans for precise control and reduction of lending risks.
MBS are securities whose interest and redemption payments are linked to the payment performance of a pool of loans secured by real estate liens.

On-balance-sheet lender A loan creditor who is able to incur risks on his own balance sheet.

Operational risk The risk of direct or indirect losses resulting from the inappropriateness or failure of human beings, technical systems, internal procedures or external events (definition pursuant to Basle II).
Operational risks are not usually entered into consciously; such risks are not subject to diversification and are difficult to narrow down.
Examples: human error, faulty management processes, criminal actions, fraud, natural disasters (fire, etc.), technical failures, departure of key employees.

Option An option grants the purchaser the right to purchase (= purchase option or call) or sell (= put option or put) a specific quantity of the item underlying the option (e.g. a security or currency) from or to a contracting partner (option writer) at a price determined when the contract is concluded (= strike). The option can be exercised either on a date specified in advance or during a period specified in advance; the purchaser pays an option premium for this right.

Participation certificate Certification of participatory rights issued by companies of all legal forms and admitted to official (stock exchange) trading. Under certain circumstances, participatory certificates may be allocated to liable equity capital.

Prime Banks The Prime All Share Index is subdivided into 18 industry indices that serve to differentiate between the Prime Standard companies. Before a company is allocated to a specific industry index it is allocated to one of the 62 industry groups.

Rating Risk rating of a debtor (internal) and/or assessment of the credit standing of an issuer and its debt instruments by specialised agencies (external).

Repo transaction Short-term money-trading transaction backed by securities.

Return on equity Ratio showing the relationship between the net income for the year, or a pre-tax performance measure (e.g. pre-tax profit), and average equity capital; indicates the return on the capital put to work by the company or its owners.

Risk assets To be able to map the assets-book → credit risks resulting from the differing credit standings of issuers and/or business partners in accordance with regulatory requirements, balance-sheet assets, off-balancesheet transactions (e.g. warranties and guarantees for balance-sheet assets) as well as → forward transactions, → swaps and → option rights are weighted with respect to risk using rate-weighting factors that depend on the rating category of the issuers and/or business partners. Under Principle I, these risk-weighted assets must be backed by 8 % liable equity capital.

Risk control Risk Control is responsible for implementing the risk policy prescribed by the Executive Board, for the neutral monitoring of lending, market and operational risks, as well as for analysing and reporting on the current and future risk situation. Risk Control is also responsible for specifying measurement and evaluation methods as well as for subsequently carrying out measurements and evaluations of risk and risk results and/or limit controls.

Risk management The taking of business decisions at operational level, portfolio management and/or optimisation of risks in the widest sense of the word on the basis of risk/reward factors (e.g. assignment of lines for credit risks, credit derivatives, etc.) within the strategic framework defined by the Executive Board and in accordance with the authorisations issued by the Executive Board bestowing direct responsibility for risks and results.

Secondary risk Risk that any losses in rental income on the part of the borrower may jeopardise the capacity to meet interest payments.

Securitisation Securities-based collateralisation and/or conversion of loans (e.g. through bonds) to procure funds. The prime aim is to make the loans tradable on organised investment markets (e.g. stock exchanges). The supplier of capital (= creditor) and therefore the purchaser of the securitised loan assumes the risk of fluctuations in market prices and of loan losses; the borrower (= debtor) must provide regular public proof of his credit standing by means of regular reporting and/or of the highest possible rating by a rating agency.

Segment reporting Breakdown of the total consolidated values by individual segments, e.g. by areas of activity (divisions) or geographical characteristics (regions); this enables conclusions to be drawn regarding performance in individual segments and their contribution to the consolidated result.

Self-assessment Self-assessment is a process whereby the operational risks and the measures taken to minimise risks are regularly identified and evaluated by procedure officers, i. e. by those individuals who are best able to assess the strengths and weaknesses of procedures.
In addition to identifying and evaluating risks, self-assessment also provides the basis for drawing up an action plan to open up opportunities for improvement, as well as for the development of risk awareness at all levels within the Bank.

Senior lender Financer of first priority loans.

Solvency The extent to which an isurer or credit institution is provided with own funds. Own funds back the claims of policy holders or creditors. The greater the solvency, the greater is the backing for these claims.

Standard risk costs Average risk costs and/or valuation adjustments due to loan losses that are expected within a given year.

Swap In principle, an exchange of payment flows: an exchange of fixed and variable interest-payment flows in the same currency (= interest rate swap) and/or exchange of payment flows in different currencies (= currency swap).

Tier 1 ratio This ratio is also referred to as the BIS core capital ratio and represents the ratio of a company's risk assets determined in accordance with the provisions of the Bank for International Settlements (BIS) plus its market risk positions to its core capital (see also BIS equity funds).

Total return swap Swap between the assignee and the guarantor with respect to the income from and changes in valuation of the underlying financial instruments. In addition to the lending risk, the guarantor also assumes the price risk resulting from the underlying financial instrument, in return for a corresponding interest payment.

Trading book Banking regulatory term for positions in financial instruments, interests and tradable loans that are held by a financial institute for the purpose of short-term resale, benefiting from price and interest rate fluctuations. This also includes transactions that are closely related to trading-book positions (e. g. for hedging purposes). Risk-carrying positions that do not belong in the trading book are assigned to the → assets book.

Treasury Division pooling the areas of refinancing and liquidity control, asset/liability management, fixed-income and own-account trading.

Vacancy rate Average percentage of all real estate space that is not used or rented out.

Value at risk Method for quantifying risk; measures the potential future losses that with a certain degree of probability will not be exceeded within a specified period of time.

Financial Calendar
Addresses

Financial Calendar 2009

24 April 2009	Publication of the results for the year 2008
5 May 2009	Publication of the results for the first quarter of 2009 Analysts' Press Conference
7 August 2009	Publication of the results for the second quarter of 2009
13 August 2009	Annual General Meeting
11 November 2009	Publication of the results for the third quarter of 2009

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Future-oriented Statements
Internet Service
Imprint

Future-oriented Statements

This report contains future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of Hypo Real Estate Holding AG. Future-oriented statements therefore only apply on the day on which they are made. We do not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include the condition of the financial markets in Germany, Europe and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of our principles, procedures and methods for risk management as well as other risks associated with our business activity.

Internet Service

Visit us at the World Wide Web:
www.hyporealestate.com
Go to Investor Relations and find information on Hypo Real Estate Holding's share, external ratings of our Group companies, facts and figures. You can also find our Annual and Interim Reports on our website, you can download them, use them interactively or order a print version online.

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