

Press release

HRE carries out transfer of assets to FMS Wertmanagement

- HRE Group also transfers SoFFin-guaranteed bonds – bonds will be completely phased out
- Manuela Better: Transfer is the single most important milestone in the realignment process

Munich, 3 October 2010 – Over the weekend, Hypo Real Estate Group completed the operational transfer of loans and securities with an outstanding nominal amount (excluding undrawn commitments and at the relevant exchange rates) of approx. € 173 billion to FMS Wertmanagement – the biggest transaction of its kind in Germany to date. The migration included more than 12.500 items from almost 70 jurisdictions. In addition, derivatives have been transferred, the majority of which will serve to hedge the assets against interest rate risks. The transfer of the assets marks the key milestone in the restructuring and realignment process. pbb Deutsche Pfandbriefbank, the strategic core bank, has been repositioned and thanks to an improved balance sheet structure, it will no longer depend on any liquidity support measures.

The bonds guaranteed by the German Financial Market Stabilisation Fund (SoFFin), and issued by HRE for its funding, to an amount of about € 124 billion Euro have been completely transferred to FMS Wertmanagement. Such bonds will be phased out by the middle of next year and replaced by issuances of FMS Wertmanagement which do not feature SoFFin guarantees. HRE Group will refinance its business predominantly via Pfandbrief issues and other covered bonds. There are no plans to use any liquidity guarantee facilities going forward.

Manuela Better, the interim CEO of HRE Holding AG, said: "The transfer of assets to FMS Wertmanagement represents the single most important milestone in realigning the Group. Our new core bank, pbb Deutsche Pfandbriefbank, has retained those assets that match its strategic focus and we will concentrate on writing new business in our European core markets. I would like to particularly thank our staff members: we could not have mastered this major task without their tireless efforts over several months."

pbb Deutsche Pfandbriefbank is a specialist Pfandbrief issuer with a European focus, and aims to achieve sustainable position on the credit and capital markets. This will enable the bank to contribute to the provision of credit to the public sector and the real estate industry. Furthermore, the bank is being prepared for a future reprivatisation, with the objective of repaying capital support provided by the State to the maximum extent possible.

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FMS Wertmanagement will carry the transferred assets. Pbb Deutsche Pfandbriefbank stands for continuity with respect to customer service: in cooperation with other Group entities – it will continue to service the assets on behalf of FMS Wertmanagement. HRE emphasised that the choice of loans and securities for transfer did not imply any judgement regarding clients' credit quality or the quality of assets transferred. A key objective of the transfer of assets was to sustainably reduce the Group's need for external liquidity support, which it has relied upon since 2008, and to benefit from future capital adequacy relief due to the lower level of total assets. FMS Wertmanagement will reduce the transferred assets based on economic principles i.e. minimising losses and realising earnings opportunities.

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