

Press release

HRE publishes interim report as of 30 June 2009

- **Pre-tax loss in the first half of 2009: € -1.07 billion**
- **Net loss: € -1.13 billion**

Munich, 7 August 2009 – Also in the second quarter of the year and thus for the entire first half of 2009, the results of HRE's business were very much affected by the crisis on the international capital, finance and real estate markets as well as the extremely difficult situation of the institution: Overall, pre-tax loss in the first half of 2009 was very negative, namely € -1.07 billion; net loss amounted to around € -1.13 billion. Significant impairments recognised primarily in relation to real estate financing and to some extent also for other receivables and securities have had a negative impact. Operating results were also considerably depressed by the costs of the liquidity support provided to HRE by a financial syndicate and the SoFFin.

Notwithstanding the above, HRE made major progress with regard to restructuring the Group. HRE has made a significant step in the direction of recapitalisation by way of a capital increase of €2.96 billion. In addition, the future strategic core bank of the group is being established in the form of **Deutsche Pfandbriefbank AG**. At the same time, HRE is adapting the size of the bank to the new business model and has now closed 15 out of a total of 26 Group locations which were due to be closed, and agreed a reduction of employees by approx. 300 compared with November 2008.

The **CEO of Hypo Real Estate Holding AG, Axel Wieandt**: “The first half year was characterized by considerable impairments recognised in relation to our real estate credit portfolio. We continue to anticipate significant charges on results which will lead to a continuing loss situation. From today's perspective, we do not envisage a return to profitability before 2012.”

Group development

Pre-tax loss in the **first half of 2009** amounted to € -1.07 billion, compared with pre-tax profit of € 207 million in the first half of 2008. The international accounting standards define the first half of 2008 as the comparison period; however, the effect of the deterioration of the real estate markets was, at that time, not evident to such an extent. Compared with the negative pre-tax loss of around € -5.58 billion in the second half of 2008 (of which around € -2.48 billion was attributable to the impairments on goodwill and intangible assets of DEPFA BANK plc.), the first half of 2009 was less negative.

For the **second quarter of 2009**, HRE has reported a consolidated pre-tax loss of € -664 million (Q2/2008: € 17 million). The net loss amounted to € -750 million (Q2/2008: € 12 million). Operating revenues totalled € 348 million, compared with € 236 million in the same previous year quarter.

The **income statement in the first half of 2009** is detailed in the following:

- The **operating revenues** of € 268 million were lower than the corresponding figure for the previous year period (€ 420 million). They were mainly affected by costs of liquidity support, including the guarantee payments, which are reflected in net commission income.
 - Net interest income increased to € 716 million compared with € 603 million in the first six months of 2008: The increase is mainly attributable to strong income in money market activities: The cuts in interest rates at the beginning of 2009 enabled HRE to take advantage of lower refinancing costs in conjunction with constant revenues on the assets side of its balance sheet.
 - Net commission income amounted to € -207 million compared with € 69 million in the corresponding previous year period. The decline is primarily attributable to costs of € -257 million for the guarantees in connection with the liquidity support provided by the SoFFin and the German Federal Government. The much lower level of new business compared with the previous year and lower income from Capital Markets & Asset Management also had an impact in this respect.

- As was the case in the previous year, net trading income was affected by the difficult situation on the financial markets. Net interest income increased to € -27 million compared with € -86 million in the first half of 2008. This reflected the valuation result recognized in relation to synthetic Collateralised Debt Obligations (CDOs), which amounted to € -25 million in the first half of 2009 after having been reported as € -106 million in the corresponding previous year period.
- The net income from financial investments was negative at € -44 million as a result of impairments recognised in relation to securities; however, this figure is considerably higher than the negative net income from financial investments for the first half of 2008 (H1/2008: € -164 million). Of the figure recognised for the impairments, € -13 million was attributable to cash CDOs (H1/2008: € -214 million) and € -22 million was attributable to mortgage-backed securities (H1/2008: € -3 million).
- The net income from hedge relationships amounted to € -107 million, and was thus lower than the corresponding previous year figure of € -4 million. Two factors are reflected in the net income from hedge relationships. Firstly, hedge inefficiencies resulted in expenses of € -84 million (H1/2008: € 8 million); the expense is primarily an opposite effect resulting from the corresponding revenues in the fourth quarter of 2008. Secondly, a higher negative valuation result of € -23 million (H1/2008: € -12 million) resulted from “designated at Fair Value through Profit or Loss” (dFVTPL) assets and related derivatives. The fair values of these positions hedged against interest rate risks have deteriorated as a result of credit spread changes.
- The balance of other operating income/expenses amounted to € -63 million (H1/2008: € 2 million), and resulted primarily from currency translation effects (in particular: US\$) of € -67 million (H1/2008: € 0 million).
- **Additions to provisions for losses on loans and advances** increased to approximately € 1.08 billion (H1/2008: € 70 million) as a result of the considerable deterioration of the global economy and the deterioration in the situation on the commercial real estate markets. These impairments were recognised mainly in relation to real estate loans (around € -1.05 billion) and, to a lesser extent, infrastructure and public sector financings (€ -29 million). The significant increase in provisions for losses on loans and advances for real estate financing was due to the further deterioration

in regional economic conditions, particularly in the markets of North America, Southern Europe and Great Britain, which have been identified as critical for quite some time, as well as in some segments in Germany. Provisions for losses on loans and advances is having a particular effect at Deutsche Pfandbriefbank. Accordingly, an impairment of around € 0.5 billion was recognised to reduce the value of the investment down to the HGB carrying amount as of 30 June 2009. This impairment has only had an impact on the HGB individual financial statements of HRE Holding.

- On the other hand, **general administrative expenses** have declined to € 251 million, compared with € 305 million in the first half of 2008. This reflects a lower workforce resulting from the process of capacity adjustment in the group, which is resulting in lower personnel expenses. Overall, the group employed 1,582 persons as of 30 June 2009, compared with 1,786 employees as of 31 December 2008. In addition, personnel expenses for the first half of 2008 included accruals for variable compensation which were released in the second half of 2008. Because the proportionate decline in operating revenues was higher than the corresponding decline in general administrative expenses, the cost-income ratio (i.e. the ratio between general administrative expenses and operating revenues) declined to 93.7% (H1/2008: 72.6%).
- The **balance of other income / expenses** of € -10 million (H1/2008: € 162 million) is attributable to the adjustment of the restructuring provision to reflect developments in the first half of 2009, for instance because it was possible for some locations to be closed sooner than originally planned.
- **Pre-tax result** was negative in the first half of 2009 (€ -1.07 billion; H1/2008: € 207 million).
- **Net income** amounted to around € -1.13 billion in the first half of 2009 (H1/2008: € 160 million).

New business in the segments

In real estate financing, the difficult situation of the Group has meant that new business has been done by HRE only on a very selective basis and almost exclusively with existing customers. Overall, new business amounted to € 1.0 billion (H1/2008: € 5.7 billion). New public sector business amounted to € 0.2 billion, compared with € 26.4 billion in the corresponding previous year period. No further infrastructure financing business is being written, as had previously been announced, because it no longer fits in with the Company's new business model.

Asset and capital ratios as of 30 June 2009

- Total assets of HRE declined by around 8% to € 386.4 billion as of 30 June 2009 (31 December 2008: € 419.7 billion). The considerable decline is attributable to two factors.
 - Firstly, portfolios were reduced because repayments exceeded new business and the drawings of old commitments.
 - Secondly, on-balance-sheet holdings declined as a result of exchange rate factors and low market values of derivatives.
- The total volume of lending, which comprises loans and advances to customers, loans and advances to other banks (excl. investments) as well as contingent liabilities, declined to € 248.7 billion as of 30 June 2009 from € 267.3 billion as of the end of 2008.
- Equity (excl. revaluation reserve) increased to € 5.5 billion as of 30 June 2009 compared with € 2.6 billion as of 31 December 2008. Following the recapitalisation of HRE by the SoFFin, the subscribed capital increased by € 3.02 billion in the first half of 2009. In addition, since the first quarter of 2009, certain hybrid issues of DEPFA Bank plc have had to be recognised as equity instruments in accordance with IAS 32.16. Accordingly, it was necessary for the carrying amount of these hybrid capital instruments (approximately € 1.04 billion) to be reclassified under equity (instead of under subordinated liabilities).

Including the revaluation reserve, equity amounted to € 2.3 billion as of 30 June 2009 (31 December 2008: € -1.5 billion).

The revaluation reserve amounted to around € -3.3 billion as of 30 June 2009 (31 December 2008: € -4.1 billion).

- The AfS reserve changed to € -2.6 billion as of 30 June 2009, compared with € -3.1 billion as of 31 December 2008. This positive development is attributable to improvements in credit spreads. In addition, the AfS reserve also increased as a result of the impairments recognised in relation to securities and the amortisation of the holdings which were reclassified in the course of the fiscal year 2008 in accordance with the IAS 39 amendment “Reclassification of financial assets” which was adopted by the IASB in October 2008 and endorsed by the EU. HRE reclassified available-for-sale assets with a carrying amount of € 76.1 billion as loans and receivables with retroactive effect as of 1 July 2008. Without this reclassification, the AfS reserve after taxes in the first half of 2009 would have been € 2.0 billion higher. Including the effects from the year 2008, the AfS reserve after taxes would have been lower by a total of € -5.1 billion without this reclassification.
- The cash flow hedge reserve amounted to € -0.7 billion, compared with € -1.0 billion at the end of last year. The change was mainly attributable to the lower level of interest rates in the first half of 2009.

Regulatory indicators

The regulatory capital according to the Germany Solvency Regulations (SolvV) amounted to approximately € 7.47 billion as of 30 June 2009. Pro-forma as per approved annual financial statements 2008 and after result distribution 2008 own funds amounted to approximately € 5.0 billion as of 31 December 2008. The capital ratios as of 30 June 2009 and 31 December 2008 are, accordingly, as follows:

- The core capital ratio (incl. risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks, scaled with a factor of 12.5) amounted to 6.9% as of 30 June 2009. On a pro-forma basis and as per approved annual financial statements 2008 and after result distribution 2008, the core capital ratio amounted to 3.4% on 31 December 2008.

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- The own funds ratio (incl. risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks, scaled with a factor of 12.5) amounted to 9.5% as of 30 June 2009. On a pro-forma basis and as per approved annual financial statements 2008 and after result distribution 2008, the comparable figure was 5.7% on 31 December 2008.

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Income Statement

Group	Q2 2008	H1 2008	FY 2008	Q2 2009	H1 2009
(in € million)					
Operating revenues	236	420	-585	348	268
thereof: Net interest income and similar income	304	603	1,633	345	716
thereof: Net commission income	34	69	32	-99	-207
thereof: Net trading income	12	-86	-1,009	135	-27
thereof: Net income from financial investments	-135	-164	-1,409	-14	-44
thereof: Net income from hedge relationships	15	-4	86	3	-107
thereof: Balance of other operating income/expenses	6	2	82	-22	-63
Provisions for losses on loans and advances	-37	-70	-1,656	-881	-1,077
General administrative expenses	-160	-305	-605	-121	-251
Impairments on goodwill and DEPFA's intangible assets	0	0	-2,482	0	0
Balance of other income/expenses	-22	162	-47	-10	-10
Pre-tax profit	17	207	-5,375	-664	-1,070
Taxes on income	-5	-47	-86	-86	-62
Net income/loss	12	160	-5,461	-750	-1,132

Key regulatory capital ratios

Key capital ratios	30.6.2009	31.12.2008 ²⁾
in %		
Core capital ratio ²⁾	6.9	3.4
Equity capital ratio ²⁾	9.8	6.0
Own funds ratio (overall indicator) ²⁾	9.5	5.7

¹⁾ Pro forma as per approved annual financial statements 2008 and after result distribution 2008

²⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

²⁾ Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

Own funds ²⁾	30.6.2009	31.12.2008 ¹⁾
in € million		
Core capital (Tier I)	5,485	2,928
Supplementary capital (Tier II)	1,989	2,069
Equity capital	7,474	4,997
Tier III capital	—	—
Total	7,474	4,997

¹⁾ Consolidated pursuant to section 10a German Banking Act (KWG)

²⁾ Pro forma as per approved annual financial statements 2008 and after result distribution 2008

Balance sheet

Assets				
in € million	30.6.2009	31.12.2008	Change in € million	Change in %
Cash reserve	1,220	1,713	-493	-28.8
Trading assets	13,646	17,287	-3,641	-21.1
Loans and advances to other banks	44,432	49,409	-4,977	-10.1
Loans and advances to customers	207,530	222,048	-14,518	-6.5
Allowances for losses on loans and advances	-3,300	-2,277	-1,023	-44.9
Financial investments	101,061	108,740	-7,679	-7.1
Property, plant and equipment	24	32	-8	-25.0
Intangible assets	43	40	3	7.5
Other assets	16,826	17,396	-570	-3.3
Income tax assets	4,889	5,266	-377	-7.2
Current tax assets	117	132	-15	-11.4
Deferred tax assets	4,772	5,134	-362	-7.1
Total assets	386,371	419,654	-33,283	-7.9
Equity and liabilities				
in € million	30.6.2009	31.12.2008	Change in € million	Change in %
Liabilities to other banks	150,374	146,878	3,496	2.4
Liabilities to customers	12,726	15,936	-3,210	-20.1
Liabilities evidenced by certificates	170,426	197,978	-27,552	-13.9
Trading liabilities	13,951	17,236	-3,285	-19.1
Provisions	337	352	-15	-4.3
Other liabilities	28,877	33,835	-4,958	-14.7
Income tax liabilities	3,994	4,163	-169	-4.1
Current tax liabilities	174	161	13	8.1
Deferred tax liabilities	3,820	4,002	-182	-4.5
Subordinated capital	3,419	4,784	-1,365	-28.5
Liabilities	384,104	421,162	-37,058	-8.8
Equity attributable to equity holders	2,267	-1,508	3,775	>100.0
Subscribed capital	3,653	633	3,020	>100.0
Hybrid capital instruments	1,043	—	1,043	>100.0
Additional paid-in capital	6,354	6,352	2	—
Retained earnings	-4,373	1,085	-5,458	<-100.0
Revaluation reserve	-3,278	-4,117	839	20.4
AFS reserve	-2,563	-3,115	552	17.7
Cash flow hedge reserve	-715	-1,002	287	28.6
Consolidated profit/loss 1.1.–31.12.	—	-5,461	5,461	100.0
Consolidated loss 1.1.–30.6.2009	-1,132	—	-1,132	<-100.0
Profit carried forward from prior year	—	—	—	—
Minority interest in equity	—	—	—	—
Equity	2,267	-1,508	3,775	>100.0
Total equity and liabilities	386,371	419,654	-33,283	-7.9