

Press Release

HRE has considerably reduced the loss in 2009

- **Pre-tax profit improved to €-2,221 million after €-5,375 million in the previous year**
- **Total balance sheet reduced by €60 billion**
- **Result depressed by provisions for losses on loans and advances and by guarantee charges**
- **In the fourth quarter 2009 Pre-tax profit reaches €-442 million**

Munich, 26 March 2010 – The Hypo Real Estate Group (HRE) has considerably reduced the loss in 2009 compared with the previous year: Pre-tax profit has improved to €-2,221 million, compared with €-5,375 million in the previous year. The result was affected mainly by further provisions for losses on loans and advances as well as costs of the external liquidity support.

Operating revenues have increased by €1,004 million from €-585 million to € 419 million. The main factors in this respect have been the much less negative net trading income (€-154 million) and net income from financial investments which broke even. Operating revenues in 2009 were considerably affected by costs of €741 million for guarantees in connection with the necessary liquidity support provided by the SoFFin and the Federal Republic of Germany. This figure includes a performance-linked charge of €229 million.

In addition, net additions to provisions for losses on loans and advances of € 2,091 million (2008: €1,656 million) had a negative impact on the full year results. Of this figure, €1,723 million was attributable to individual allowances recognised in relation to receivables from real estate financing as a result of the recession which had a major impact on the commercial real estate markets.

General administrative expenses have declined from €605 million to €541 million, mainly as a result of the around 18 percent decline in personnel expenses, resulting from a reduction in the number of employees of around 400 to around 1,400.

Manuela Better, Chief Risk Officer and interim CEO of HRE said: “We have stabilised the Group in 2009 and have considerably reduced the losses. Our strategic priorities for 2010 are to continue establishing pbb Deutsche Pfandbriefbank on the market, to continue reducing the balance sheet total, to establish a deconsolidated environment for the transfer of non-strategic business activities and the successful completion of the EU proceedings. In 2010, the result will be additionally depressed particularly by the costs of

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establishing such a deconsolidated environment – nevertheless, we intend to further reduce the losses compared with 2009. As long as no decision has been taken with regard to the extent and form of the planned deconsolidated environment, we must continue to assume that the Group will not be able to return to profitability before the year 2012.”

The consolidated balance sheet total has declined from €419.7 billion as of the previous year reference date by €60 billion (14 percent) to €359.7 billion as of the end of December 2009. The main factor in this respect were repayments of loans which exceeded the total new business. This reduction is partially attributable to market movements (i.e. a decline in the fair values, triggered off by lower interest rates). Finally the balance sheet total was also reduced by means of active portfolio management.

2009 was the second year for which losses have been reported and this has had a considerable impact on the capital backing of HRE. At the end of the year, the core capital ratio, including the total capital addition of around €6 billion, was 9.4 percent. On a pro-forma basis including the losses of 2009, which, in line with the regulator requirements, is carried out only after the annual financial statements are adopted, the core capital ratio was around 7.8 percent.

In the fourth quarter of 2009, the Group generated pre-tax profit of €-442 million (Q4/2008: €-2.477 million). As was the case in the full year, this mainly reflected the much less negative net trading income, the considerable improvement in net income from financial investments as well as lower provisions for losses on loans and advances: Net trading income amounted to €-152 million (Q4/2008: €-574 million), net income from financial investments was slightly positive (€42 million; Q4/2008: €-881 million), and provisions for losses on loans and advances declined to €204 million (Q4/2008: €1,409 million). The result was also affected by the performance-linked fee of €229 million paid to the Federal Government for the necessary liquidity support during the last 14 months.

Note for editors:

We have enclosed tables for the income statement as well as the balance sheet.

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Tabelle 1: Gewinn- und Verlustrechnung

Income/expenses in € million	Note · page	2009	2008	Change	
				in € million	in %
Operating revenues		419	- 585	1,004	> 100.0
Net interest income and similar income	31-135	1,396	1,633	- 237	- 14.5
Interest income and similar income		12,108	16,828	- 4,720	- 28.0
Interest expenses and similar expenses		10,712	15,195	- 4,483	- 29.5
Net commission income	32-135	- 642	32	- 674	< - 100.0
Commission income		137	200	- 63	- 31.5
Commission expenses		779	168	611	> 100.0
Net trading income	33-135, 35-136	- 154	- 1,009	855	84.7
Net income from financial investments	34-135, 35-136	- 1	- 1,409	1,408	99.9
Net income from hedge relationships	36-136	- 117	86	- 203	< - 100.0
Balance of other operating income/expenses	37-136	- 63	82	- 145	< - 100.0
Provisions for losses on loans and advances	38-136	2,091	1,656	435	26.3
General administrative expenses	39-137	541	605	- 64	- 10.6
Impairments on goodwill and DEPFA's intangible assets	40-137	—	2,482	- 2,482	- 100.0
Balance of other income/expenses	41-137	- 8	- 47	39	83.0
Pre-tax profit/loss		- 2,221	- 5,375	3,154	58.7
Taxes on income	42-137	15	86	- 71	- 82.6
Net income/loss		- 2,236	- 5,461	3,225	59.1

Tabelle 2: Bilanz

Assets						
in € million	Note - page	31.12.2009	31.12.2008	Change		31.12.2007
				in € million	in %	
Cash reserve	7-126, 44-140	1,824	1,713	111	6.5	10,654
Trading assets	8-126, 45-140	10,749	17,287	-6,538	-37.8	20,552
Loans and advances to other banks	9-126, 46-140	37,521	49,409	-11,888	-24.1	51,975
Loans and advances to customers	9-126, 47-140	198,344	222,048	-23,704	-10.7	213,173
Allowances for losses on loans and advances	10-126, 49-141	-3,898	-2,277	-1,621	-71.2	-905
Financial investments	11-127, 50-142	94,808	108,740	-13,932	-12.8	88,851
Property, plant and equipment	12-127, 51-145	15	32	-17	-53.1	68
Intangible assets	13-127, 52-146	44	40	4	10.0	2,555
Other assets	14-128, 53-147	15,399	17,396	-1,997	-11.5	9,870
Income tax assets	23-128, 54-147	4,870	5,266	-396	-7.5	3,381
Current tax assets		146	132	14	10.6	114
Deferred tax assets		4,724	5,134	-410	-8.0	3,267
Total assets		359,676	419,654	-59,978	-14.3	400,174
Equity and liabilities						
in € million	Note - page	31.12.2009	31.12.2008	Change		31.12.2007
				in € million	in %	
Liabilities to other banks	15-128, 58-149	137,349	146,878	-9,529	-6.5	111,241
Liabilities to customers	15-128, 59-149	13,259	15,936	-2,677	-16.8	27,106
Liabilities evidenced by certificates	60-149	156,376	197,978	-41,602	-21.0	218,080
Trading liabilities	16-128, 61-149	11,391	17,236	-5,845	-33.9	14,835
Provisions	17-128, 62-149	249	352	-103	-29.3	144
Other liabilities	18-128, 63-153	29,250	33,835	-4,585	-13.6	14,722
Income tax liabilities	23-129, 64-153	3,976	4,163	-187	-4.5	2,357
Current tax liabilities		113	161	-48	-29.8	116
Deferred tax liabilities		3,863	4,002	-139	-3.5	2,241
Subordinated capital	19-129, 65-153	3,217	4,784	-1,567	-32.8	5,615
Liabilities		355,067	421,162	-66,095	-15.7	394,100
Subscribed capital	66-155	3,649	633	3,016	>100.0	602
Hybrid capital instruments ²¹	19-129, 65-154, 66-155	1,043	—	1,043	>100.0	—
Silent participation ²²	20-129, 66-155	999	—	999	>100.0	—
Additional paid-in capital		8,351	6,352	1,999	31.5	5,926
Retained earnings	66-155	-4,368	1,085	-5,453	<-100.0	943
Revaluation reserve		-2,829	-4,117	1,288	31.3	-1,857
AFS reserve	6-122	-2,267	-3,115	848	27.2	-346
Cash flow hedge reserve	6-122	-562	-1,002	440	43.9	-1,511
Consolidated loss / profit 1.1.-31.12.		-2,236	-5,461	3,225	59.1	457
Profit carried forward from prior year		—	—	—	—	3
Equity		4,609	-1,508	6,117	>100.0	6,074
Total equity and liabilities		359,676	419,654	-59,978	-14.3	400,174

²¹ Hybrid capital instruments of the subsidiary DEPFA Bank plc which had to be reclassified according to IAS 32 under equity instead of under subordinated capital (non-controlling interest)

²² Silent participation of SoFFn to the subsidiary Deutsche Pfandbriefbank AG (non-controlling interest)