

Press Release

HRE continues to reduce losses during the first quarter of 2010

- **Loss before taxes of €-324 million shows improvement over Q1 2009**
- **Results continue to be burdened by provisions for losses on loans and advances and guarantee fees**

Munich, 7 May 2010 – Hypo Real Estate Group (HRE) continues to make progress in its restructuring process, despite the challenging market environment for real estate and public-sector finance. The Group further reduced losses during the first quarter of this year, to a consolidated loss of €-324 million before taxes (Q1 2009: €-406 million). Q1 results were once again burdened by provisions for losses on loans and advances (€260 million) and expenses for external liquidity support (€119 million). Consolidated total assets grew by 2 per cent, to €366 billion, due to market fluctuations. These effects had only a limited impact on risk-weighted assets, however, which declined to €79 billion during the first quarter (Dec 2009: €81 billion).

The Group generated **operating revenues** of €51 million during the period under review, compared to €-80 million in the first quarter of 2009. Even though net interest income declined to €291 million (Q1 2009: €371 million), caused – amongst other factors – by a reduction of interest-bearing assets, net trading income of €-105 million (Q1 2009: €-162 million) and net income from financial investments of €-11 million (Q1 2009: €-30 million) showed year-on-year improvements. At €-100 million, net commission income was largely unchanged (Q1 2009: €-108 million). The net figure was burdened by €119 million in expenses for external liquidity support, which were however lower than in the same quarter of the previous year (Q1 2009: €129 million), reflecting the partial repayment of liquidity support.

Net additions to **provisions for losses on loans and advances** increased to €260 million during the quarter under review (Q1 2009: €196 million), reflecting the continued difficult situation on real estate finance markets. In contrast, **general administrative expenses** declined to €115 million (Q1 2009: €130 million), due in particular to lower personnel expenses.

Regulatory capital ratios declined further, on account of the losses sustained: at the end of the first quarter, the tier 1 ratio for the Group stood at 7.7 per cent. Once the further recapitalisation measures resolved by SoFFin at the end of April are put into place, the capital ratios are set to improve.

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Manuela Better, CEO of HRE Holding AG, said: "The first quarter of the current financial year was the best we have seen since the autumn of 2008. We are on track to further reduce losses during the current financial year, compared with the previous year, despite additional expenses in relation to setting up the planned deconsolidated environment (*Abwicklungsanstalt*). We continue to assume that the Group will not be able to return to profitability before the year 2012." Manuela Better indicated that HRE is making good progress in its preparations for the planned deconsolidated environment into which the Group intends to transfer non-strategic or non-performing assets.

Note to editors:

We have attached tables providing information regarding the income statement and the balance sheet.

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Table 1: Income statement (IFRS)

EUR million	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010
Operating revenues	-80	348	244	-93	419	51
thereof:						
Net interest income and similar income	371	345	333	347	1,396	291
Net commission income	-108	-99	-97	-338	-642	-100
Net trading income	-162	135	25	-152	-154	-105
Net income from financial investments	-30	-14	1	42	-1	-11
Net income from hedge relationships	-110	3	-30	20	-117	-20
Balance of other operating income/expenses	-41	-22	12	-12	-63	-4
Provisions for losses on loans and advances	-196	-881	-810	-204	-2,091	-260
General administrative expenses	-130	-121	-142	-148	-541	-115
Balance of other income/expenses	0	-10	-1	3	-8	0
Pretax profit/loss	-406	-664	-709	-442	-2,221	-324

Table 2: Balance sheet (IFRS)

Assets

EUR million	31.03.2010	31.12.2009	Change	
			EUR million	%
Cash reserve	200	1,824	-1,624	-89.0
Trading assets	11,976	10,749	1,227	11.4
Loans and advances to other banks	40,931	37,521	3,410	9.1
Loans and advances to customers	198,486	198,344	142	0.1
Allowances for losses on loans and advances	-3,931	-3,898	-33	-0.8
Financial investments	95,996	94,808	1,188	1.3
Property, plan and equipment	12	15	-3	-20.0
Intangible assets	40	44	-4	-9.1
Other assets	17,435	15,399	2,036	13.2
Income tax assets	5,213	4,870	343	7.0
Total assets	366,358	359,676	6,682	1.9

Equity and liabilities

EUR million	31.03.2010	31.12.2009	Change	
			EUR million	%
Liabilities to other banks	142,890	137,349	5,541	4.0
Liabilities to customers	14,920	13,259	1,661	12.5
Liabilities evidenced by certificates	151,497	156,376	-4,879	-3.1
Trading liabilities	13,016	11,391	1,625	14.3
Provisions	243	249	-6	-2.4
Other liabilities	32,045	29,250	2,795	9.6
Income tax liabilities	4,392	3,976	416	10.5
Subordinated capital	3,123	3,217	-94	-2.9
Liabilities	362,126	355,067	7,059	2.0
Equity	4,232	4,609	-377	-8.2
Total equity and liabilities	366,358	359,676	6,682	1.9