

## Press Release

### **HRE is publishing interim report as of 30 September 2009**

- **Pre-tax loss in the first nine months of 2009: € -178 billion**
- **Net income/loss: € -1.71 billion**
- **Pre-tax profit/loss in the third quarter: € -709 million**
- **Result depressed by downturn on the real estate markets**

**Munich, 11 November 2009** – HRE has reported pre-tax profit / loss of around € -1.78 billion for the first nine months of this year (9M/2008: around € -2.90 billion); net income / loss amounts to around € -1.71 billion (9M/2008: € -2.89 billion). For the third quarter of 2009, HRE has reported consolidated pre-tax profit/loss of € -709 million (9M/2008: around € -3.11 billion). Net income / loss was € -574 million (9M/2008; around €3.05 billion). The operating revenues totalled € 244 million compared with € -345 million in the corresponding prior year quarter.

The figures for the first nine months of this year are only comparable to a limited extent with the prior year figures, which were very negative, due to different factors. Last year, results were affected primarily by impairments recognised in relation to the goodwill, intangible assets of DEPFA BANK plc and structured products. This year, results have been affected mainly by impairments recognised in relation to receivables. These impairments are connected with the financial market crisis and the economic downturn, which in particular is also affecting the commercial real estate market. In addition, this year, net commission income has been affected by the expenses of the liquidity support which has been received, and general administrative expenses have been affected by the expenses of the strategic refocusing.

However, the third quarter also experienced progress with the restructuring and strategic refocusing of the Group. The strategic core bank, namely pbb Deutsche Pfandbriefbank, is now operating on the market with a new brand and a new corporate image, originating new business and being active on the refinancing markets. Progress is also being made with streamlining the balance sheet of HRE without placing a strain on capital. Total assets have fallen by 11% to € 373.8 billion.

**The CEO of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG, Axel Wieandt, said:** “The result of the first nine months of this year is not satisfactory; however, it is due to the difficult conditions on the market and the special situation of the Group. We still have a long way to go before we will meet our objective – but good progress is being made with the process of restructuring. Conditions on the market will continue to be difficult.”

### **Selective new business**

Deutsche Pfandbriefbank continues to be active on the market. In the first nine months of the year, new real estate financing business amounted to € 2.7 billion. New business of € 1.7 billion was written in the third quarter alone. In public sector finance, new business in the first nine months amounted to € 0.2 billion.

### **Capital ratios improved by support provided by the SoFFin**

As reported last week, the steering committee of the Financial Market Stabilisation Fund SoFFin has decided to grant further support to HRE. The Group will initially receive an additional € 3.0 billion as a further tranche. In its statement, the SoFFin has again confirmed that it intends to adequately recapitalise the Group and to make the necessary liquidity available.

The current recapitalisation will improve the regulatory capital ratios of HRE Holding and the group companies. On the basis of the figures as of 30 September 2009 and thus before the further capital contribution described above, the core capital ratio was 6.1 percent for the Group, 2.6 percent for Deutsche Pfandbriefbank AG and 6.6 percent for DEPFA BANK plc. If the recapitalisation as part of the further tranche of € 3 billion had taken place in the third quarter, the ratios would have been as follows: HRE Group 9.7 percent, Deutsche Pfandbriefbank AG 7.3 percent and DEPFA BANK plc 7.1 percent. The Group is accordingly now fully in line again with the minimum capital ratios specified by law. It has however to be borne in mind that the ratios will deteriorate in view of the probable net loss for the year as of 31 December 2009.

### **Note for editors:**

We have enclosed explanations to the consolidated income statements for the first nine months, the development in assets and in the financial position as well as the regulatory ratios.

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### **Appendix 1: Group development 9M/2009**

The **income statement for the first nine months of 2009** is detailed in the following:

- Operating revenues of € 512 million were higher than the corresponding figure for the prior year period (€ 75 million). This was due to the improvements in net interest income, net trading income and net income from financial investments, which are mainly attributable to positive market movements.
  - Net interest income increased to around € 1.05 billion, compared with € 957 million in the first nine months of 2008. The increase is attributable to income generated with money market operations as well as drawn US customer liquidity facilities. The income generated with money market operations was attributable to the lower level of market interest rates which, at the beginning of 2009, enabled HRE to take advantage of lower refinancing costs in conjunction with constant revenues generated by lending operations. The drawn US customer liquidity facilities have boosted net interest income as a result of their high interest rates. A further positive factor has been the net interest income attributable to the securities which in 2008 were reclassified as loans and receivables, whereas they had previously been classified as held-for-trading. The one-off revenues attributable to sales of receivables, premature repayment penalties as well as repurchasing and redemptions of financial liabilities declined compared with the prior year (9M/2009: € 37 million, 9M/2008: € 99 million).
  - Net commission income amounted to € -304 million compared with € 104 million in the corresponding prior year period. The decline is primarily attributable to expenses of € -382 million for the guarantees in connection with the liquidity support provided by SoFFin and the German Federal Government. The much lower level of new business and lower income from Capital Markets & Asset Management (an operating segment which is being discontinued by HRE) also had an impact in this respect. HRE generated slightly higher income with new customer derivative business (current year: € 20 million, prior year: € 13 million).

- Net trading income in 2009 so far amounts to € -2 million, and is considerably higher than the corresponding prior year figure (9M/2008: € -435 million), because the effect of the valuation of synthetic collateralised debt obligations (CDOs) recognised in the income statement had a considerably lower impact on net trading income (9M/2009: € -66 million, 9M/2008: € -218 million). In addition, the lower probability of default in connection with the restructuring of a US monoline insurer also had a positive impact in the third quarter of 2009. This partially compensated for the impairments recognised in the income statement in previous quarters. In addition, a book profit has been generated with the sale of claims against the US investment bank Lehman Brothers Inc., which has filed for creditor protection. These claims had been almost completely written off and revalued in 2008.
- The net income from financial investments amounted to € -43 million in the first nine months of the year compared with € -528 million in the corresponding prior year period. This is mainly attributable to impairments recognised in relation to cash CDOs of € -22 million (9M/2008: € -409 million). The impairments recognised in relation to mortgage-backed securities amounted to € -29 million (9M/2008: € -4 million). Portfolio-based allowances of € -9 million have also been created. On the other hand, profits from the sale of financial investments of € 10 million were realised (9M/2008: € 49 million).
- The net income from hedge relationships amounted to € -137 million, and was thus lower than the corresponding prior year figure of € -34 million. Two factors are reflected in the net income from hedge relationships: Hedge inefficiencies of € -131 million (9M/2008: € 2 million) within the range of 80% to 125% permitted under IAS 39, as well as the valuation result of € -6 million (2008: € -36 million) resulting from designated as Fair Value through Profit or Loss (dFVTPL) assets and related derivatives. The hedge inefficiencies resulted mainly from the volatility of short-term interest rates. This consequently had a positive impact on net interest income in the period under review, and had a negative impact on the net income from hedge relationships. The net income from hedge relationships is a reversal of the corresponding figure for the prior year which was very positive.

The fair values of the dFVTPL assets hedged against interest risks have fallen as a result of credit spread narrowing in the first quarter of 2009. This narrowing recovered to a large extent in the second and third quarters of 2009.

- The balance of other operating income/expenses amounted to € -51 million (9M 2008: € 11 million), and was mainly attributable to currency translation effects (mainly US\$) of € -58 million (9M 2008: € 12 million).
- Additions to provisions for losses on loans and advances increased to around € 1.89 billion mainly as a result of the deterioration in the commercial real estate markets (9M/2008: € 247 million).
  - Of the individual loan loss provisions which were recognised, real estate loans accounted for € 1.43 billion and infrastructure and public sector financings accounted for € 117 million. The significant increase in provisions for losses on loans and advances for real estate financings was attributable to the further deterioration in regional economic conditions on those real estate markets which have been identified as critical for quite some time, namely North America, Southern Europe, Great Britain, and partially Germany. The increasing vacancy rates and illiquid markets have resulted in declines in the value of real estate and thus, indirectly, in increasing levels of loan defaults. The world-wide recession is also having an impact on the utilisation of infrastructure products such as motorways, airports and means of transport.
  - The portfolio-based allowances increased by € 292 million (9M/2008: Additions of € 115 million). The expected losses of the holdings have increased, due to the deterioration in the credit standing of some debtors and the related increase in probability of default.
- General administrative expenses have declined to € 393 million (9M/2008: € 424 million). This is attributable to several factors: Personnel expenses have declined as a result of a reduced workforce (30 September 2009: 1,480 employees, 31 December 2008: 1,786 employees). The accrued liabilities for variable compensation were also lower.

The accrued liabilities for variable compensation which were created in the first three quarters of 2008 were reversed in the fourth quarter of 2008. The other general administrative expenses increased mainly as a result of higher fees for IT and advisors which were not permitted to be included in the restructuring provision created in 2008. The cost-income ratio, i.e. the ratio between general administrative expenses and operating revenues, improved slightly to 76.8% (2008: > 100.0 %).

- The balance of other income / expenses amounted to € -11 million (9M 2008: € 180 million).
- Pre-tax profit / loss was negative in the first three quarters of 2009 with around € -1.78 billion (9M/2008: around € -2.90 billion).
- Current tax expenses of € 29 million were opposed by deferred tax income of € 102 million, thus resulting in a total tax income of € 73 million for the first nine months of 2009 (9M 2008: tax income of € 6 million). The actual tax expense was incurred mainly in countries in which HRE generated positive pre-tax results.
- Net income / loss amounted to around € -1.71 billion in the first nine months of 2009 (9M/2008: € -2.89 billion).

## **Appendix 2: Development in net assets and financial position as of 30 September 2009**

- Total assets of HRE declined continuously in the year under review, and amounted to € 373.8 billion as of 30 September 2009, this represents a decline of 11% compared with last year (31 December 2008: € 419.7 billion). This decline is attributable to several factors. Portfolios declined because new business and the drawings of old commitments were lower than the repayments. In addition, on-balance-sheet holdings declined as a result of exchange rate factors and the impact of the lower level of interest rates on the market values of the derivatives. These factors are reflected primarily in the items loans and advances, financial assets and trading assets. Total assets also declined as a result of the impairments recognised in relation to receivables and securities.
- The total volume of lending, which comprises loans and advances to customers (excl. investments), loans and advances to other banks (excl. investments) as well as the contingent liabilities, amounted to € 239.7 billion as of 30 September 2009 compared with € 267.3 billion at the end of 2008 (a decline of 10%).
- Equity (excl. the revaluation reserve) amounted to € 5.0 billion as of 30 September 2009, compared with around € 2.6 billion as of 31 December 2008. Including the revaluation reserve, equity amounted to around € 2.2 billion as of 30 September 2009 (31 December 2008: € -1.5 billion).
  - The revaluation reserve amounted to € -2.7 billion (31 December 2008: € -4.1 billion). The AfS reserve improved to € -2.1 billion as of 30 September 2009 as a result of market factors, compared with € -3.1 billion as of 31 December 2008. This positive development is attributable to improvements in credit spreads. The AfS reserve also increased as a result of the impairments and amortisation of securities which were reclassified in 2008 in accordance with the IAS 39 amendment “Reclassification of Financial Assets” which was adopted in October 2008 by the IASB and endorsed by the EU. HRE had reclassified available-for-sale assets with a carrying amount of € 76.1 billion as loans and receivables retrospectively as of 1 July 2008. Without this reclassification, the AfS reserve after taxes in the first nine months of 2009 would have been € 3.5 billion higher.

Including the effects from the year 2008, the AFS reserve after taxes would have been lower by a total of € -3.6 billion without this reclassification.

- The cash flow hedge reserve amounted to € -0.6 billion, compared with € -1.0 billion at the end of last year. The change was mainly attributable to maturities of derivatives and the lower level of interest rates in the course of the year.

The subscribed capital has increased by € 3.02 billion in the first nine months of 2009 following the recapitalisation of HRE by the SoFFin. In the first quarter of 2009, the SoFFin utilised the authorised capital to take up 20 million shares of HRE Holding for the minimum price of € 3.00 per share permitted by law, excluding shareholders' subscription rights. In June 2009, the SoFFin took up around 986.5 million shares as part of a capital increase which was adopted by the Extraordinary General Meeting of the Company on 2 June 2009.

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. The classification of financial instruments as capital instruments or debt instruments does not depend on the Company's regulations. Instead, it depends on whether the Company has a contractual obligation to make payments from an issued financial instrument. DEPFA BANK plc has issued subordinate debt in the form of undated bonds via its issuance vehicles DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP. These hybrid capital instruments only have to make interest payments if creditors of equal ranking receive an interest payment. After the last equal-ranking liability was repaid in the first quarter of 2009, the Company no longer has a contractual obligation to make interest payments after this time. Accordingly, it was necessary for the carrying amount of these hybrid capital instruments (€ 1.04 billion) to be reclassified under equity (instead of under subordinated liabilities).

### **Appendix 3: Regulatory indicators**

The regulatory own funds according to the German Solvency Regulation (SolvV) amounted to around € 6.71 billion as of 30 September 2009. On 31 December 2008, pro-forma own funds amounted around to € 5.0 billion as per the approved annual financial statements 2008 and after the result distribution 2008. The core capital amounted to € 5.10 billion as of 30 September 2009. On 31 December 2008, the core capital (pro-forma) was around € 2.93 billion as per the approved financial statements 2008 and after the result distribution 2008.

The capital ratios as of 30 September 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 the factor 12.5) amounted to 6.1% as of 30 September 2009. On a pro-forma basis and as per the approved financial statements 2008 and after result distribution 2008, the core capital ratio amounted to 3.4% on 31 December 2008.
- 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 the factor 12.5) amounted to 8.0% as of 30 September 2009. On a pro-forma basis and as per the approved financial statements 2008 and after result distribution 2008, the comparable figure was 5.7% on 31 December 2008.

## Income Statement

Group (in € million)	Q3 2008	9M 2008	FY 2008	Q3 2009	9M 2009
Operating revenues	-345	75	-585	244	512
thereof: Net interest income and similar income	354	957	1,633	333	1,049
thereof: Net commission income	35	104	32	-97	-304
thereof: Net trading income	-349	-435	-1,009	25	-2
thereof: Net income from financial investments	-364	-528	-1,409	1	-43
thereof: Net income from hedge relationships	-30	-34	86	-30	-137
thereof: Balance of other operating income/expenses	9	11	82	12	-51
Provisions for losses on loans and advances	177	247	1,656	810	1,887
General administrative expenses	119	424	605	142	393
Impairments on goodwill and DEPFA's intangible assets	2,482	2,482	2,482	-	-
Balance of other income/expenses	18	180	-47	-1	-11
Pre-tax profit	-3,105	-2,898	-5,375	-709	-1,779
Taxes on income	-53	-6	86	-135	-73
Net income/loss	-3,052	-2,892	-5,461	-574	-1,706

## Key regulatory capital ratios

Own funds <sup>21)</sup>		
in € million	30.9.2009	31.12.2008 <sup>22)</sup>
Core capital (Tier I)	5,101	2,928
Supplementary capital (Tier II)	1,609	2,069
Equity capital	6,710	4,997
Tier III capital	—	—
Total	6,710	4,997

<sup>21)</sup> Consolidated pursuant to section 10a German Banking Act (KWG)

<sup>22)</sup> Pro forma as per approved annual financial statements 2008 and after result distribution 2008

Key capital ratios		
in %	30.9.2009	31.12.2008 <sup>23)</sup>
Core capital ratio <sup>24)</sup>	6.1	3.4
Equity capital ratio <sup>25)</sup>	8.4	6.0
Own funds ratio (overall indicator) <sup>26)</sup>	8.0	5.7

<sup>23)</sup> Pro forma as per approved annual financial statements 2008 and after result distribution 2008

<sup>24)</sup> 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

<sup>25)</sup> Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

## Balance sheet

<b>Assets</b>					
in € million	30.9.2009	31.12.2008	Change in € million	Change in %	31.12.2007
Cash reserve	331	1,713	-1,382	-80.7	10,654
Trading assets	13,203	17,287	-4,084	-23.6	20,552
Loans and advances to other banks	40,295	49,409	-9,114	-18.4	51,975
Loans and advances to customers	202,187	222,048	-19,861	-8.9	213,173
Allowances for losses on loans and advances	-3,940	-2,277	-1,663	-73.0	-905
Financial investments	98,597	108,740	-10,143	-9.3	88,851
Property, plant and equipment	22	32	-10	-31.3	68
Intangible assets	43	40	3	7.5	2,555
Other assets	18,038	17,396	642	3.7	9,870
Income tax assets	5,022	5,266	-244	-4.6	3,381
Current tax assets	121	132	-11	-8.3	114
Deferred tax assets	4,901	5,134	-233	-4.5	3,267
<b>Total assets</b>	<b>373,798</b>	<b>419,654</b>	<b>-45,856</b>	<b>-10.9</b>	<b>400,174</b>

<b>Equity and liabilities</b>					
in € million	30.9.2009	31.12.2008	Change in € million	Change in %	31.12.2007
Liabilities to other banks	143,428	146,878	-3,450	-2.3	111,241
Liabilities to customers	12,143	15,936	-3,793	-23.8	27,106
Liabilities evidenced by certificates	164,434	197,978	-33,544	-16.9	218,080
Trading liabilities	13,195	17,236	-4,041	-23.4	14,835
Provisions	322	352	-30	-8.5	144
Other liabilities	30,560	33,835	-3,275	-9.7	14,722
Income tax liabilities	4,099	4,163	-64	-1.5	2,357
Current tax liabilities	94	161	-67	-41.6	116
Deferred tax liabilities	4,005	4,002	3	0.1	2,241
Subordinated capital	3,369	4,784	-1,415	-29.6	5,615
<b>Liabilities</b>	<b>371,550</b>	<b>421,162</b>	<b>-49,612</b>	<b>-11.8</b>	<b>394,100</b>
Equity attributable to equity holders	2,248	-1,508	3,756	>100.0	6,074
Subscribed capital	3,653	633	3,020	>100.0	602
Hybrid capital instruments	1,043	—	1,043	>100.0	—
Additional paid-in capital	6,354	6,352	2	—	5,926
Retained earnings	-4,389	1,085	-5,474	<-100.0	943
Revaluation reserve	-2,707	-4,117	1,410	34.2	-1,857
AFS reserve	-2,108	-3,115	1,007	32.3	-346
Cash flow hedge reserve	-599	-1,002	403	40.2	-1,511
Consolidated profit/loss 1.1.-31.12.	—	-5,461	5,461	100.0	457
Consolidated loss 1.1.-30.9.2009	-1,706	—	-1,706	<-100.0	—
Profit carried forward from prior year	—	—	—	—	3
Minority interest in equity	—	—	—	—	—
<b>Equity</b>	<b>2,248</b>	<b>-1,508</b>	<b>3,756</b>	<b>&gt;100.0</b>	<b>6,074</b>
<b>Total equity and liabilities</b>	<b>373,798</b>	<b>419,654</b>	<b>-45,856</b>	<b>-10.9</b>	<b>400,174</b>