

# Results Q1 2010

**Investor Relations Presentation**  
May 7, 2010

# Agenda

- 1 Overview**
- 2 Financial Results Q1 2010
- 3 Liquidity and Capitalisation
- 4 Outlook

## Overview

Losses further reduced – Q1 2010 pretax loss at EUR -324 mio (Q1 2009: EUR -406 mio); loss after tax at EUR -287 mio

Main negative drivers:

- ▶ Further additions to loan-loss provisions of EUR -260 mio, primarily for real estate loans
- ▶ Expenses related to necessary external liquidity support, which include EUR -119 mio costs for SoFFin<sup>1</sup> guarantees (net commission income)
- ▶ Net trading income of EUR -105 mio includes EUR -71 mio counterparty risk adjustments on customer derivatives and EUR -36 mio market value adjustments on Halcyon and Pegasus portfolio

RWA further reduced, despite a slightly increased balance sheet

- ▶ Balance sheet: EUR +6 bn (+2%) to EUR 366 bn (12/2009: EUR 360 bn), mainly due to market effects
- ▶ RWA: EUR -2 bn (-2%) to EUR 79 bn (12/2009: EUR 81 bn)

New business segments implemented, reflecting the new strategy and business model

Further progress made in restructuring process

- ▶ General administrative expenses reduced by 12% to EUR 115 mio (Q1 2009: EUR 130 mio)
- ▶ Staff reduction in line with plan – since Nov 1, 2008 staff reduction by 549 FTE (12/2009: 523 FTE) secured in course of the restructuring program

## Overview (cont'd)

Utilisation of liquidity guarantees at EUR 75 bn as of April 1, 2010 (12/2009: EUR 75 bn)

- ▶ After a further repayment of EUR 1.5 bn in March 2010, currently EUR 93.5 bn SoFFin guarantees available
- ▶ pbb Deutsche Pfandbriefbank has successfully placed a EUR 1.0 bn Jumbo Public Sector Pfandbrief in Jan 2010, its third public issuance since the financial market crisis started – in 2009 pbb placed two Jumbo Pfandbrief issues with a total volume of EUR 2.5 bn in the public market
- ▶ However, external/SoFFin support continues to be essential – liquidity situation is subject to market movements and central bank actions

Further step of recapitalisation – in April 2010 SoFFin has approved the next recapitalisation tranches of up to EUR 1.85 bn

- ▶ Including the support measure at hand, SoFFin has provided total recapitalisation support of EUR 7.87 bn
- ▶ Tier I ratio (SolvV) at 7.7% by end of March 2010 (12/2009: 9.4%), now including the regulatory balance sheet loss 2009
- ▶ In Nov 2009 SoFFin has reaffirmed its ongoing intention to sufficiently recapitalise the Group and to provide the necessary liquidity

In Jan 2010 HRE in co-ordination with the SoFFin has submitted an application to the German Financial Market Stabilisation Agency (FMSA) pursuant to section 8a of the FMStFG for the establishment of a 'deconsolidated environment' ('Abwicklungsanstalt') aimed at reducing assets in a value-preserving manner

Intention to transfer operations that are no longer strategically required, as well as additional balance sheet items totalling up to EUR 210 bn

Total support package for HRE from the government is being reviewed within the scope of ongoing EU state aid proceedings

# Agenda

- 1 Overview
- 2 Financial Results Q1 2010**
- 3 Liquidity and Capitalisation
- 4 Outlook

## Pretax loss of EUR -324 mio in Q1 2010, including EUR 45 mio positive effect from sale of assets

### HRE Group (IFRS)

EUR millions

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010
Operating revenues	-80	348	244	-93	419	51
thereof:						
Net interest 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
<b>Pretax profit/loss</b>	<b>-406</b>	<b>-664</b>	<b>-709</b>	<b>-442</b>	<b>-2,221</b>	<b>-324</b>

- ▶ Net interest income declined, primarily due to reduced portfolio; Q1 2010 includes EUR 45 mio positive effect from sale of assets
- ▶ Net commission income includes costs for SoFFin liquidity support of EUR -119 mio (Q4 2009: EUR -359 mio<sup>1</sup>; Q1 2009: EUR -129 mio)
- ▶ Net trading income negative, including following key effects:
  - ▶ EUR -71 mio counterparty risk adjustments on customer derivatives (Q4 2009: -145 mio; Q1 2009: -25 mio)
  - ▶ EUR -36 mio market value adjustments on Halcyon and Pegasus portfolio (Q4 2009: EUR +5 mio; Q1 2009: EUR -134 mio)
- ▶ Net income from financial investments includes EUR 14 mio gain on sale of CDOs/MBS and EUR -11 mio write-downs on CDOs; Q4 2009 included reversals on MBS of EUR 160 mio
- ▶ Net income from hedge relationships remains volatile
- ▶ Further additions to loan-loss provisions required, primarily for real estate loans; Q4 2009 includes positive effect of EUR 323 mio from adjustment of rating parameters for portfolio-based provisions
- ▶ General administrative expenses further down in Q1 2010, benefiting from releases of personnel related accruals but including higher IT costs

<sup>1</sup> In Dec 2009 SoFFin, HRE and the German financial consortium agreed on restructuring the liquidity support facility of initially EUR 50 bn granted in Nov 2008; FRG in its capacity as guarantor has not yet waived the profit-related fee, therefore a liability of EUR 229 mio was recognised in Q4 2009

## New business segments implemented, reflecting the new strategy and business model

Corporate segments	Real Estate Finance (REF)	Public Sector Finance (PSF) <sup>1</sup>	Value Portfolio (VP) <sup>2</sup>	Consolidation & Adjustments (C&A)
Business areas	Germany	Product & Portfolio Management (PPM)	Value Portfolio Europe/RoW	
	International	Public Sector Clients (PSC) <sup>3</sup>	Value Portfolio Americas	
Portfolio composition	Mortgage cover pool (German 'Pfandbrief')	Public Sector cover pool <sup>4</sup> (German 'Pfandbrief')	Capital Markets & Asset Management	Consolidation
	Non cover pool eligible REF portfolio		DEPFA Public Finance business (incl. ACS, LdG)	Certain special non-assignable items
			Non-strategic portfolios	
			CDOs, CMBS/RMBS	
			Infrastructure Finance	
			Locked-in carry trades	

Establishment of a 'deconsolidated environment' with potential impact on segment structure

1 Incl. Treasury Money Market result of pbb Deutsche Pfandbriefbank  
 3 Incl. Treasury result of DEPFA and legacy funding costs

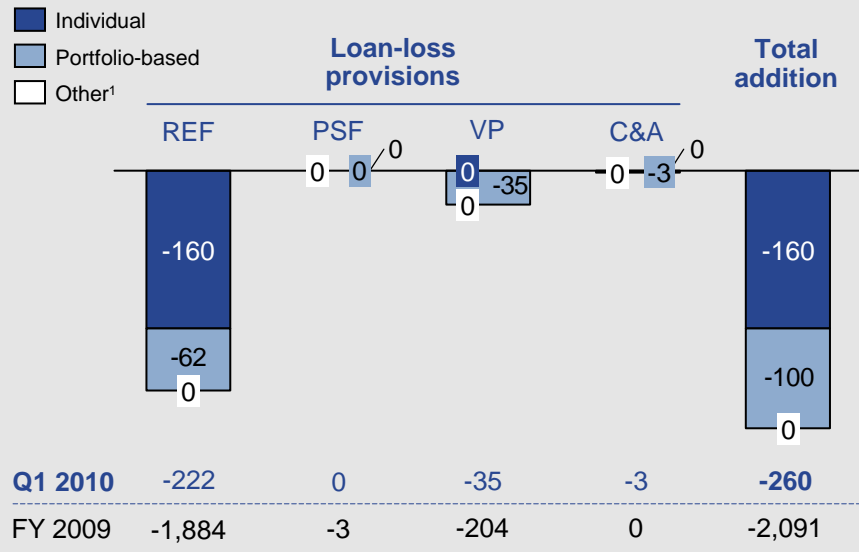
2 No portfolio and IFRS P&L segmentation  
 4 Incl. over-collateralisation

# Additions to loan-loss provisions of EUR -260 mio primarily required for real estate loans

## Loan-loss provisions (LLPs)

EUR millions

### P&L



- ▶ Total additions to loan-loss provisions of EUR -260 mio, primarily required for real estate loans (five biggest cases account for 85% of total gross additions to individual LLPs)
- ▶ No loan-loss provisions required for public sector assets in Q1 2010
- ▶ Coverage ratios on problem loans<sup>2</sup> at end of March 2010 as follows:
  - ▶ REF: 36.1% (12/2009: 34.8%)
  - ▶ PSF/VP: 17.7% (12/2009: 20.0%)
- ▶ Real estate loans in the USA and Spain over-proportionally represented in individual allowances; most individual allowances in Germany (40%), but under-proportionally represented vs. exposure of 44%

1 Provisions for contingent liabilities & other commitments as well as recoveries from write-offs of loans and advances

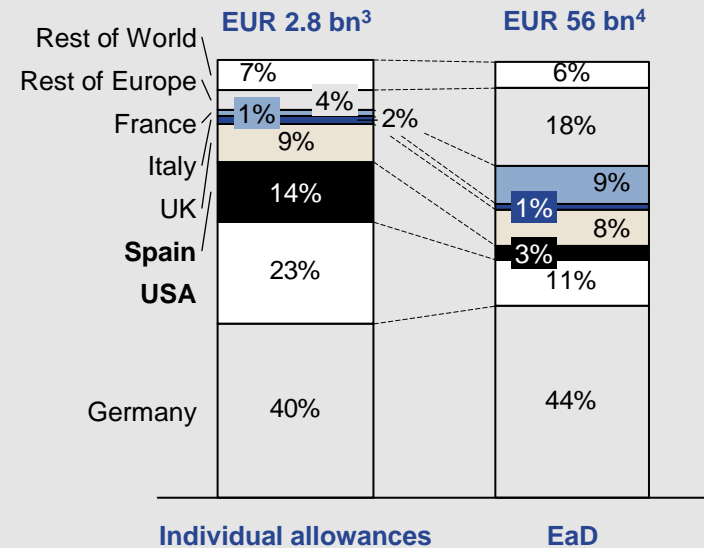
2 Deals in foreclosure or with payments overdue >90 days (based on commitments, incl. interest and costs in arrears); REF: EUR 8.7 bn; PSF/VP: EUR 1.7 bn

### Balance sheet

	12/2009	03/2010				Total
		REF	PSF	VP	C&A	
Individual allowances	3,072	2,630	0	343	32	3,005
Portfolio-based allowances	826	594	3	321	8	926
Provisions for contingent liabilities & other commitments	19	12	0	8	0	20
<b>Total loan-loss provisions</b>	<b>3,917</b>	<b>3,236</b>	<b>3</b>	<b>672</b>	<b>40</b>	<b>3,951</b>

### Individual allowances vs. Exposure at Default (EaD)

Real Estate Finance (REF) – by region (03/2010)



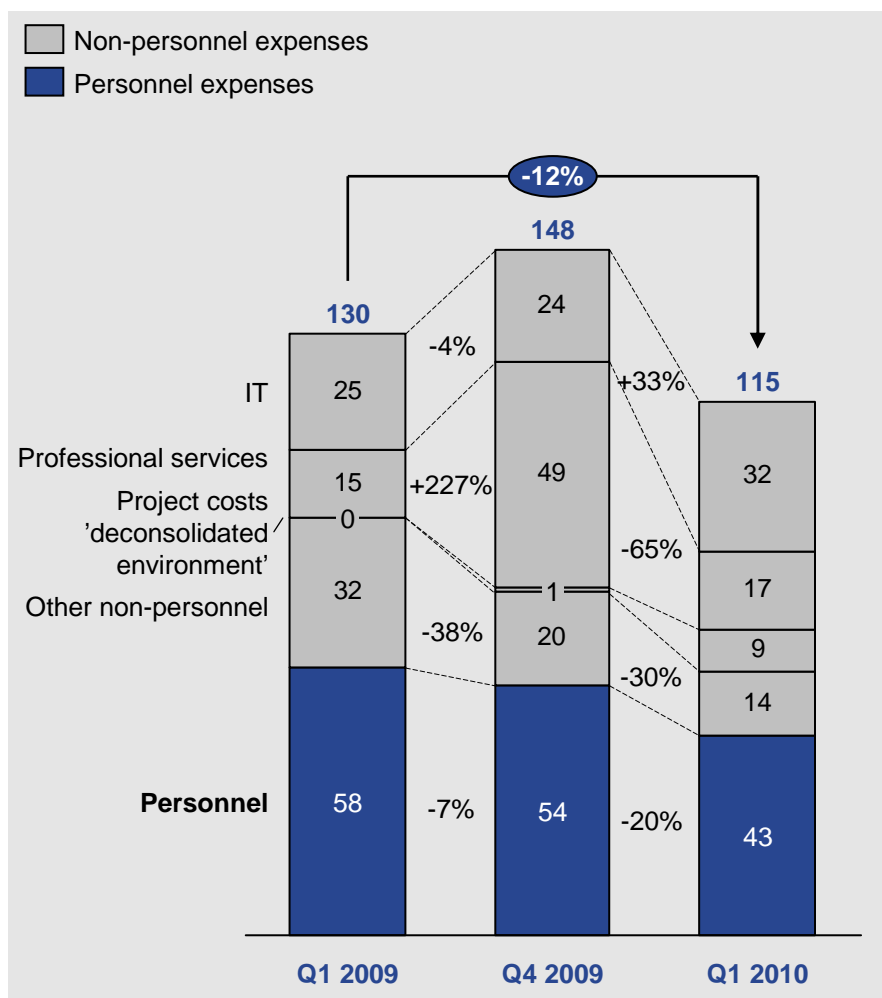
3 Incl. EUR 0.15 bn interest

4 Excl. EUR 1.7 bn derivatives

# Further progress made in restructuring process – general administrative expenses reduced by 12%

## General administrative expenses

EUR millions



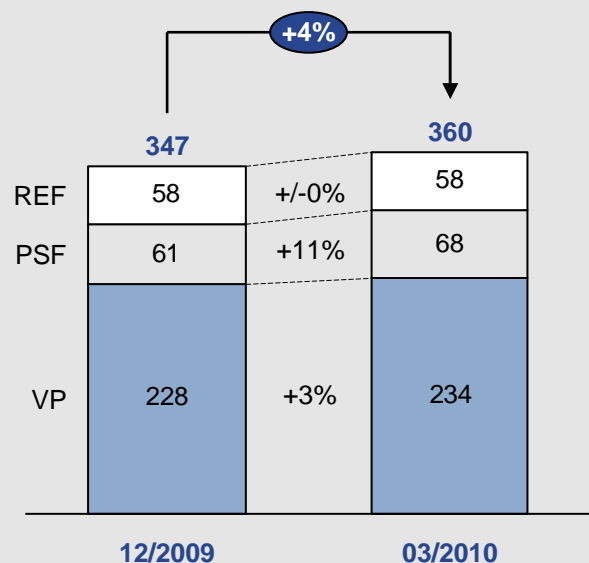
- ▶ Personnel expenses further reduced due to staff reduction
  - ▶ Staff reduction in line with plan – since Nov 1, 2008 staff reduction by 549 FTE (12/2009: 523 FTE) secured in course of the restructuring program
  - ▶ Total workforce at 1,405 employees as per end of March 2010 (03/2009: 1,656)
- ▶ Non-personnel expenses on prior year's level – reduced operational costs offset by higher IT costs
  - ▶ Office location closures in line with plan
    - ▶ DEPFA Nicosia branch closed in Q1 2010; now 23<sup>1</sup> office locations closed in total by end of March 2010
    - ▶ Closure of Singapore branch in progress – completion expected in Q3 2010
    - ▶ In addition, consolidation of Tokyo offices in progress – completion expected in Q3 2010
  - ▶ Q1 2010 includes costs of EUR 9 mio for the project to establish a 'deconsolidated environment' – total costs of EUR 95 mio expected for 2010
  - ▶ Professional services include costs relating to e.g. outsourced services, legal issues, risk valuation, SoFFin and EU process

<sup>1</sup> Sao Paulo, Tel Aviv, Lisbon, Sacramento, Chicago, Frankfurt, Copenhagen (2 offices), Amsterdam, Stockholm, Hamburg, Manchester, Mexico City, Istanbul, Athens, Dortmund, Hong Kong (2 offices), Bucharest, Berlin, Warsaw, Mumbai, Nicosia

# Total exposure (EaD) up in Q1 due to implementation of Internal Rating Based Approach (IRBA) in DEPFA for derivatives/repos and FX effects

## Total exposure EUR billions

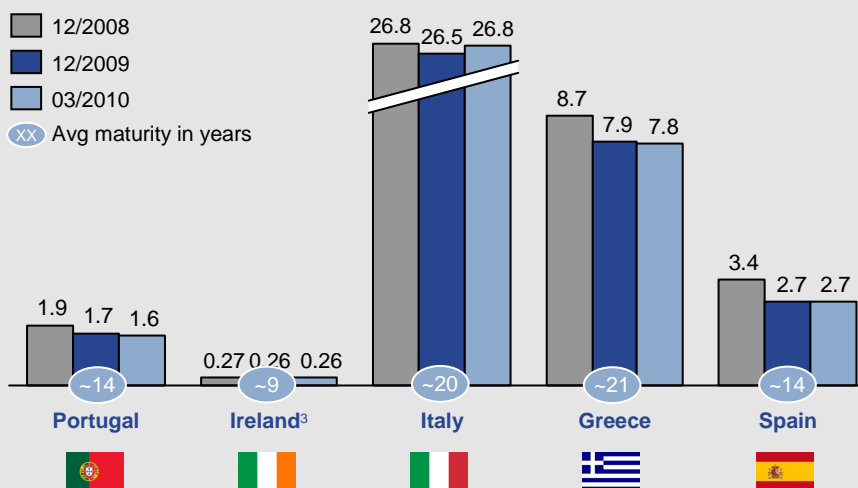
### Exposure at Default (EaD)<sup>1</sup> by business segment



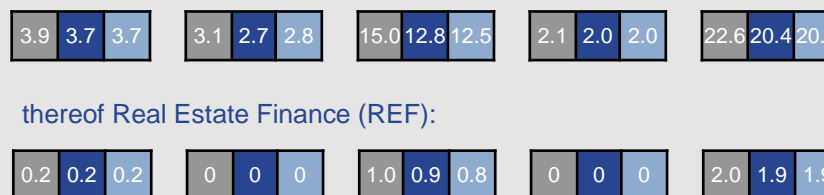
- ▶ Total exposure (EaD) up in Q1 2010 – repayments more than offset by effects from implementation of IRBA in DEPFA for derivatives/repos and FX effects
- ▶ New business<sup>2</sup>: EUR 0.7 bn (REF: EUR 0.5 bn; PSF: EUR 0.2 bn)
- ▶ Sovereign exposure further reduced in all countries currently in focus, except Italy – Italy sovereign exposure up in Q1 2010 due to USD FX effects as part of the exposure in granted in USD
- ▶ No individual loan-loss provisions booked on sovereign exposures of countries currently in focus so far; no direct impact on RWAs resulting from recent rating downgrades on Greece and Portugal

### Exposure at Default (EaD)<sup>1</sup> by countries currently in focus

#### Sovereign



#### In addition, Non-Sovereign<sup>4</sup>:



<sup>1</sup> According to Basel II IRBA regulations

<sup>2</sup> Total volume of deals closed, excl. Extensions <= 1 year

<sup>3</sup> Excl. claims against the Irish Central Bank

<sup>4</sup> Other Public Sector (e.g. Public Sector Entities, Local Authorities, Financial Institutions, Government Regulated Companies), IF, REF, C&A

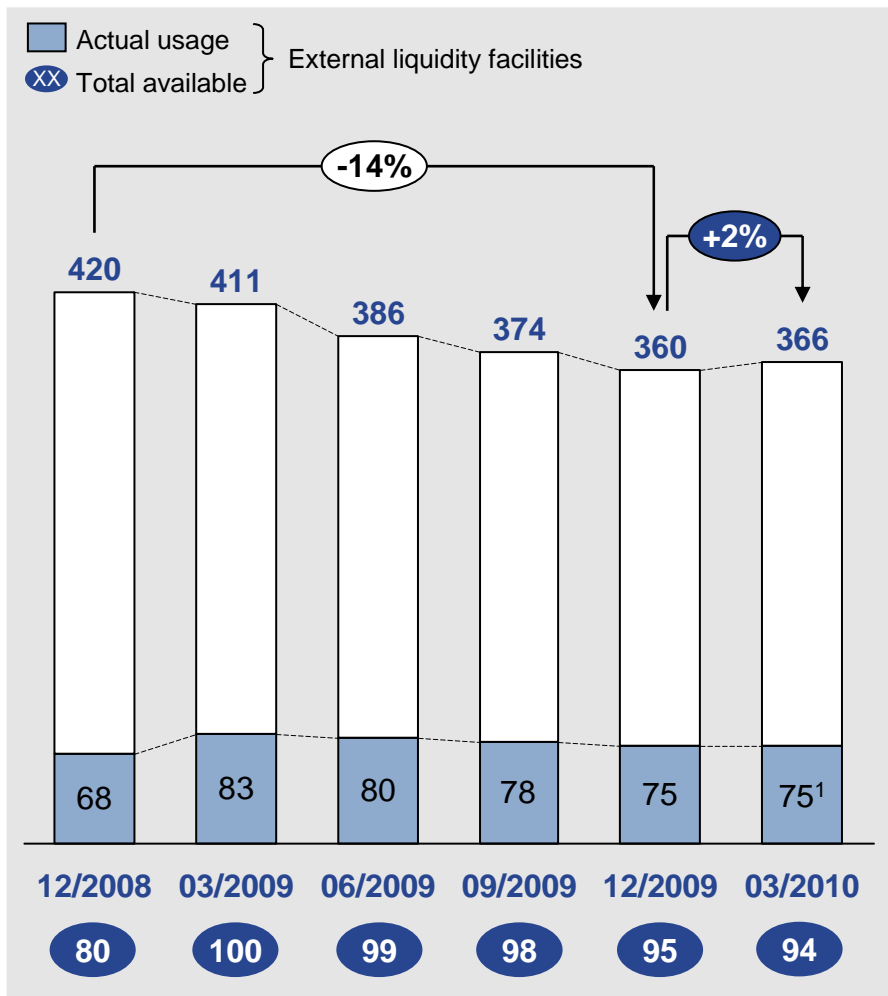
# Agenda

- 1 Overview
- 2 Financial Results Q1 2010
- 3 Liquidity and Capitalisation**
- 4 Outlook

# Balance sheet up 2% in Q1 2010, mainly due to market effects – external/SoFFin support continues to be essential

## Balance sheet / External liquidity facilities

EUR billions



- ▶ Balance sheet up EUR 6 bn (+2%) in Q1 2010, mainly due to market effects
  - ▶ Increased market values of derivatives, mainly due to FX effects (assets: EUR +3.3 bn; liabilities: EUR +4.4 bn)
  - ▶ Fair-value adjustments on underlying transactions in fair-value hedge accounting (assets: EUR +2.2 bn; liabilities EUR +1.3 bn)
  - ▶ Additional collateral requirements in ECB and bilateral repo transactions, resulting from fair-value reductions of Greek and other PIIGS bonds
- ▶ Utilisation of liquidity guarantees at EUR 75 bn as of April 1, 2010 (12/2009: EUR 75 bn)
  - ▶ After a further repayment of EUR 1.5 bn in March 2010, currently EUR 93.5 bn SoFFin guarantees available
  - ▶ In Jan 2010 pbb has successfully placed a EUR 1.0 bn Jumbo Public Sector Pfandbrief, its third public issuance since the financial market crisis started – in 2009 pbb placed two Jumbo Pfandbrief issues with a total volume of EUR 2.5 bn in the public market

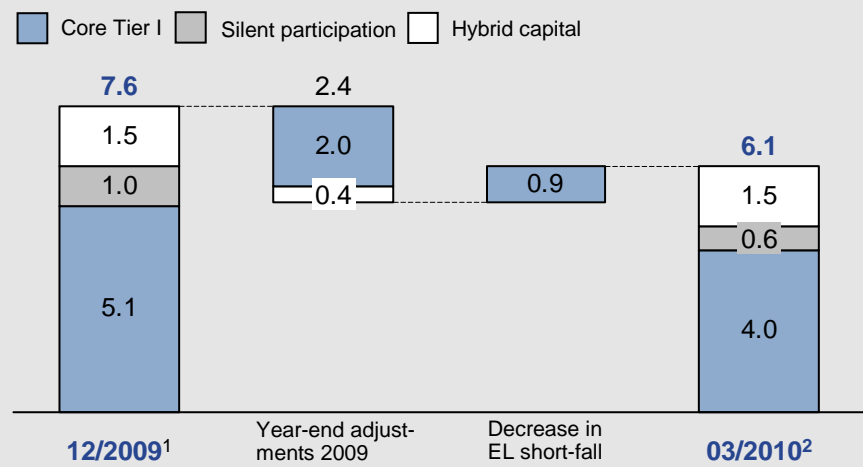
EUR 1.0 bn Jumbo Public Sector Pfandbrief	
Size	EUR 1.0 bn
Type	Jumbo Public Sector Pfandbrief
Rating (S&P/Moody's/Fitch)	AA+ / Aaa / AAA
Maturity	7-year
Coupon	3.375% p.a. act/act
Fixed re-offer spread	m/s +38 bp
Current trading level <sup>2</sup>	m/s +44 bp

- ▶ External/SoFFin support continues to be essential – liquidity situation is subject to market movements and central bank actions

# RWA further reduced – Tier I ratio (SolvV) at 7.7% by end of March 2010, now including regulatory balance sheet loss 2009

## Tier I capital (SolvV, German GAAP/HGB)

EUR billions

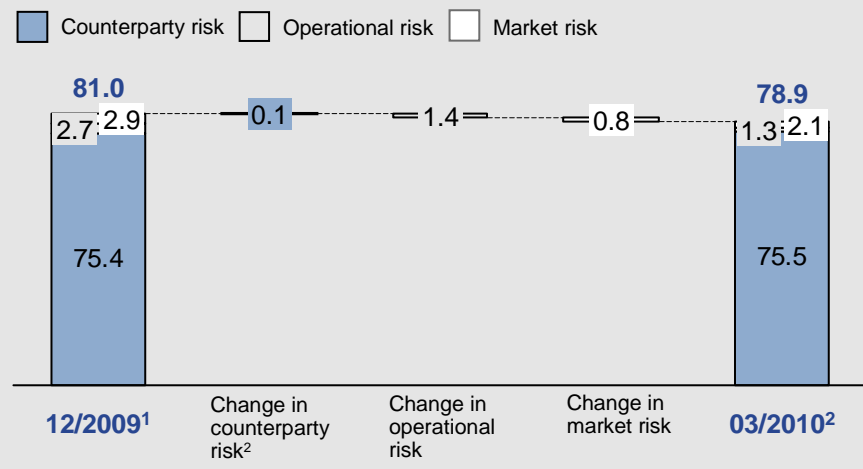


- ▶ RWA further reduced by EUR 2.1 bn to EUR 78.9 bn as per end of March 2010 (12/2009: EUR 81.0 bn)
  - ▶ Counterparty risk slightly increased by EUR 0.1 bn, in particular driven by rating changes, year-end adjustments and FX effects
  - ▶ Operational risk reduced by EUR 1.4 bn
  - ▶ Market risk reduced by EUR 0.8 bn due to reduction of risk positions
- ▶ Tier I capital (SolvV) down EUR 1.5 bn, including year-end adjustments to balance sheet loss 2009 (but not yet Q1 2010 loss), write-downs on the silent participation and reserves as well as other adjustments
- ▶ The regulatory capital ratios (SolvV) by end of March 2010 have been as follows:

	31.03.2010
Core Tier I ratio <sup>2,3</sup> (SolvV)	5.0%
<b>Tier I ratio<sup>2,3</sup> (SolvV)</b>	<b>7.7%</b>
Own funds ratio <sup>2,3</sup> (SolvV)	10.1%

## Risk-Weighted Assets (RWA)

EUR billions



- ▶ Regulatory capital ratios of the HRE Group entities as per end of March 2010 are as follows:

	31.03.2010		
	RWA	Tier I capital	Tier I ratio <sup>3</sup>
Deutsche Pfandbriefbank <sup>4</sup> (sub-group)	EUR 45 bn	EUR 2.3 bn	5.3%
DEPFA BANK plc (sub-group)	EUR 53 bn	EUR 3.5 bn	6.6%

- ▶ EUR 150 mio reserves passed from HRE Holding to DEPFA BANK plc in April to meet Irish capital requirements

1 Before approved annual financial statements and before profit distribution  
 2 Incl. year-end adjustments 2009 (incl. regulatory balance sheet loss 2009)  
 3 Based on counterparty, operational and market risk

4 Deutsche Pfandbriefbank AG is, in accordance with the 'Waiver-Rule' of sec. 2a KWG, not obliged to calculate on a group level the core capital ratio and the own funds ratio

## Further step of recapitalisation – in April 2010 SoFFin has approved the next recapitalisation tranches of up to EUR 1.85 bn

In April 2010 SoFFin has approved the next recapitalisation tranches of up to EUR 1.85 bn within the framework of the existing capital plan

The capital is planned to be paid into HRE Holding's capital reserve in at least two tranches as necessary – in particular, the recapitalisation is necessary in order for DEPFA BANK plc to maintain its minimum regulatory capital ratios in the near future

The capital measure is subject to approval by the European Commission

Including the support measure at hand, SoFFin has provided total recapitalisation support of EUR 7.87 bn – HRE anticipates aggregate capital requirements at Group level at an unchanged EUR 10 bn

In Nov 2009 SoFFin has reaffirmed its ongoing intention to sufficiently recapitalise the Group and to provide the necessary liquidity

SoFFin intends to resolve on a final recapitalisation after conclusion of the EU state aid control proceedings, and following the establishment of a 'deconsolidated environment' ('Abwicklungsanstalt')

# Agenda

- 1 Overview
- 2 Financial Results Q1 2010
- 3 Liquidity and Capitalization
- 4 Outlook**

## Outlook 2010 – market environment remains difficult

- Market environment remains difficult – results expected to be further burdened by write-downs on loans and securities, expenses for external liquidity support and costs for the establishment of a 'deconsolidated environment'
- Continue to establish pbb Deutsche Pfandbriefbank as the strategic core bank within the Group – in the Real Estate and Public Sector lending markets as well as the secured and unsecured funding markets
- Further balance sheet reduction in a value-preserving manner – in this context, the establishment of a 'deconsolidated environment'
- Conclude the currently ongoing EU state aid proceedings

## Investor Relations contacts

<b>Ulrich Kern</b> (Head)	+49 (0)89 2880 28780 ulrich.kern@pfandbriefbank.com
<b>Frank Ertz</b>	+49 (0)89 2880 28776 frank.ertz@pfandbriefbank.com
<b>Michael Heuber</b>	+49 (0)89 2880 28778 michael.heuber@pfandbriefbank.com

**Web:** <http://www.hyporealestate.com/eng/IR.php>

**Hypo Real Estate Holding AG**  
Investor Relations / Rating Agency Relations  
Freisinger Strasse 5  
85716 Unterschleissheim  
Germany

**- IMPORTANT NOTICE -**

This presentation is not an offer or invitation to subscribe for or purchase any securities.

No warranty is given as to the accuracy or completeness of the information in this presentation.

You must make your own independent investigation and appraisal of the business and financial condition of Hypo Real Estate Group and its securities.

Nothing in this presentation shall form the basis of any contract or commitment whatsoever.

This presentation is furnished to you solely for your information. You may not reproduce it or redistribute to any other person.

This presentation may only be made, distributed or passed on to persons in the United Kingdom in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This presentation contains forward-looking statements. These statements may be identified by such words as “may”, “plans”, “expects”, “believes” and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions. Various factors could cause actual future results, performance or events to differ materially from those described in these statements. Such factors include general economic conditions, the conditions of the financial markets in Germany, in Western Europe and in the United States, the performance of the Hypo Real Estate Group’ core markets and changes in laws and regulations. No obligation is assumed to update any forward-looking statements.

The presentation and any written materials distributed during such presentation are made available only to qualified institutional buyers, as such term is defined in Rule 144A under the U.S. Securities Act of 1933, as amended (“QIBs”). By participating in the presentation and accepting this document, you are deemed to represent that you are a QIB.

*By participating in this presentation or by accepting any copy of the slides presented, you agree to be bound by the foregoing limitations.*