

Press release

HRE: Entities report profitable fourth quarter 2010 – Group realignment largely completed

- **Q4 pre-tax profit of € 268 million – HRE full-year pre-tax results improved to € -859 million**
- **Deutsche Pfandbriefbank posts Q4 pre-tax profit of € 98 million, cutting its losses by more than 90% year-on-year**
- **Manuela Better: The Group has repositioned itself – return to the markets in 2011 and focus on core business**

Munich, 24 March 2011 – The HRE Group (HRE) posted a pre-tax profit of €268 million during the fourth quarter of 2010, and significantly reduced its loss for the full year. According to the consolidated financial statements, which have not yet been approved by the Supervisory Board, the Group's pre-tax loss was reduced to € -859 million (2009: € -2,221 million). Thanks to a profitable second half of the year, the Deutsche Pfandbriefbank sub-group – which includes pbb Deutsche Pfandbriefbank AG, the Group's core bank – succeeded in cutting losses even further, to € -135 million (2009: € -1,525 million). The bank posted a € 98 million pre-tax profit for the fourth quarter of 2010.

Despite the fact that it continued to devote significant resources to the realignment of the Group, pbb Deutsche Pfandbriefbank originated new business totalling € 4.1 billion, with the Real Estate Finance segment accounting for € 3.1 billion and the Public Sector Finance segment accounting for €1.0 billion.

Manuela Better, CEO of HRE and Deutsche Pfandbriefbank AG, said: "With the realignment process largely completed, the Group now has a clear structure. We also reduced total assets, and further restructured the existing portfolio. This was followed by a splitting of the portfolio in which we have retained the strategic part and have transferred the remainder to FMS Wertmanagement where it will be reduced in a value preserving matter. The transition to a newly-positioned Group is also evident in the significant improvements to results, with a profitable fourth quarter. pbb Deutsche Pfandbriefbank is now returning to the markets with full force – thus building the basis for a successful re-privatisation."

The Management Board anticipates posting a profit for the Deutsche Pfandbriefbank sub-group for 2011. It plans to provide a more detailed guidance once the EU state aid proceedings have been concluded. Assuming that the market environment will permit it to do so, Deutsche Pfandbriefbank aims to originate new business of up to € 8 billion during 2011.

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HRE Group's results for 2011 may still be burdened by a potential one-off payment obligation for the use of FMS Wertmanagement (*Abwicklungsanstalt*), of up to € 1.59 billion; this would lead to a negative result. Without such a payment, the Management Board anticipates posting a profit for 2011. The payment obligation is related to the transfer of assets to FMS Wertmanagement; it also serves to prevent any competitive advantages gained in connection with the transaction.

Consolidated Income Statement of HRE Group

The details of HRE's consolidated income statement for the 2010 financial year were as follows:

- At € -859 million, HRE Group's **pre-tax loss** was markedly lower than in the previous year (2009: € -2,221 million). Not only the profit of the fourth quarter of 2010 was significant in this respect: the Group's losses in the first three quarters of 2010 were also reduced compared with the corresponding quarters of 2009. For the fourth quarter of 2010, HRE posted a pre-tax profit of € 268 million (Q4 2009: pre-tax loss of € -442 million).
- **Operating revenues** amounted to € 89 million, and were therefore lower than the previous year's figure of € 419 million. Operating revenues of € -259 million during the first three quarters of 2010 were burdened by charges incurred in connection with the restructuring process, guarantee fees payable to SoFFin, as well as impairments recognised in relation to individual positions. In contrast, positive operating revenues of € 348 million were generated during the fourth quarter of 2010. The overall year-on-year decline was predominantly due to lower net interest income and higher charges burdening net trading income.

The net commission income of € -319 million burdened operating revenues to a lesser extent than in the previous year (2009: € -642 million). The largest individual items in the net commission income were expenses for **guarantees**, and the utilisation of such guarantees, in connection with the liquidity support provided by SoFFin. Expenses for liquidity support totalled € 384 million (2009: € 741 million). HRE's aggregate payments for guarantees to the Federal Republic of Germany amount to approx. € 1.2 billion.

- The situation on the commercial real estate markets improved to a certain extent during 2010 but the overall situation continued to be difficult. As a consequence, it was again necessary to recognise additions to provisions for losses on loans and advances in 2010, to an aggregate amount of € 865 million (2009: € 2,330 million).

Net of releases, **provisions for losses on loans and advances** amounted to € 445 million (2009: € 2,091 million). It is worth noting that provisions for losses on loans and advances had to be recognised primarily by the time of the transfer to FMS Wertmanagement, whereas portfolio improvements during the fourth quarter allowed for a net € 7 million release of provisions for losses on loans and advances.

- At € 516 million, **general administrative expenses** declined year-on-year (2009: € 541 million). The higher level of other general administrative expenses of € 371 million (2009: € 328 million), predominantly due to expenses incurred in connection with the establishment of FMS Wertmanagement, was more than offset by lower personnel expenses of € 145 million (2009: € 213 million).

Consolidated Income Statement of the Deutsche Pfandbriefbank Sub-Group

The income statement of the Deutsche Pfandbriefbank sub-group, which includes the Group's strategic core bank, developed as follows:

- At € -135 million, the sub-group's **pre-tax loss** was markedly lower than in the previous year (2009: € -1,525 million). In fact, all quarterly results for 2010 showed year-on-year improvements. Moreover, a positive result of € 119 million was generated during the third quarter of 2010: this marked the first positive quarterly result since the autumn of 2008. The positive trend continued after the transfer of positions to FMS Wertmanagement during the fourth quarter of 2010: a pre-tax profit of € 98 million was achieved for the period (Q4 2009: € -141 million).
- **Operating revenues** of € 652 million were in line with the previous year's figure (2009: € 653 million). Lower net interest income was offset by lower charges attributable to liquidity support (reported in the net commission income), positive net trading income, and positive effects in the balance of other operating income and expenses. Revenues were generated mainly during the third quarter (€ 241 million) and – following the transfer of positions to FMS Wertmanagement – during the fourth quarter of 2010 (€ 191 million). The development reflects the success of the restructuring process as well as the profitability of the remaining portfolio after the transfer process was completed.
- Full year additions to provisions for losses on loans and advances amounted to € 766 million (2009: € 2,024 million). Net of releases, **provisions for losses on loans and advances** amounted to € 443 million (2009: € 1,891 million). Again, provisions for losses on loans and advances had to be recognised primarily by the time of the transfer of assets to FMS Wertmanagement.

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After the transfer of exposures to FMS Wertmanagement, provisions for losses on loans and advances normalised during the fourth quarter of 2010, at only € 25 million.

- At € 352 million, **general administrative expenses** increased year-on-year (2009: € 305 million). Similar to developments at Group level, higher other general administrative expenses were partly offset by lower personnel expenses.

Consolidated total assets of HRE Group and the Deutsche Pfandbriefbank sub-group

Total assets of HRE Group and the Deutsche Pfandbriefbank sub-group (in accordance with IFRS) declined during the year under review, primarily as a result of the transfer of assets to FMS Wertmanagement. However, the reduction in total assets did not yet fully reflect the volume of assets transferred; this was due to the effects of funding passed on to FMS Wertmanagement upon total assets, and of other effects in the context of the transfer, which resulted in an extension of the balance sheet. These effects occurred predominantly as at 1 October 2010 (the date of the transfer); they were already partially reduced by the end of 2010, and will decline further in the future – albeit not to zero. Market-induced effects, such as exchange rate fluctuations, also impacted on the level of total assets. Against this background, total assets developed as follows:

- Consolidated total assets of HRE Group as at 31 December 2010 amounted to € 328.1 billion, down € 31.6 billion from the previous year's level (31 December 2009: € 359.7 billion).
- Consolidated total assets of the Deutsche Pfandbriefbank sub-group as at 31 December 2010 declined to € 186.8 billion (31 December 2009: € 215.2 billion). On a pro-forma basis (i.e. excluding the extension effects on total assets, due to the transfer of assets to FMS Wertmanagement), total assets would have amounted to € 104 billion.

Note to editors:

We have included tables providing information on the consolidated income statements of Hypo Real Estate Group and Deutsche Pfandbriefbank Group.

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Table 1: Consolidated Income Statement of HRE Group (€ million)

Hypo Real Estate				
	Q4 2009	FY 2009	Q4 2010	FY 2010
Operating revenues	-93	419	348	89
Net interest and similar income	347	1,396	104	840
Net commission income	-338	-642	4	-319
Net trading income	-152	-154	67	-364
Net income from financial investments	42	-1	-2	14
Net income from hedge relationships	20	-117	7	-56
Balance of other operating income/expenses	-12	-63	168	-26
Provisions for losses on loans and advances	204	2,091	-7	445
General administrative expenses	148	541	97	516
Balance of other income/expenses	3	-8	10	13
Pre-tax profit/loss	-442	-2,221	268	-859

Table 2: Income Statement of pbb Deutsche Pfandbriefbank (€ million)

Pfandbriefbank				
	Q4 2009¹	FY 2009¹⁾	Q4 2010	FY 2010
Operating revenues	158	653	191	652
Net interest and similar income	287	863	109	600
Net commission income	-55	-66	10	-10
Net trading income	-98	-44	15	77
Net income from financial investments	4	-43	1	-17
Net income from hedge relationships	18	-23	-4	-45
Balance of other operating income/expenses	2	-34	60	47
Provisions for losses on loans and advances	211	1,891	25	443
General administrative expenses	91	305	76	352
Balance of other income/expenses	3	18	8	8
Pre-tax profit/loss	-141	-1,525	98	-135

¹ Combined figures (of former Hypo Real Estate Bank AG and DEPPFA Deutsche Pfandbriefbank AG)