

Press release

HRE Group reduces pre-tax loss by more than 40 per cent over the same period of the previous year to € -408 million

- **pbb Deutsche Pfandbriefbank AG posts a profit in the third quarter**

Munich, 16 November 2010 – HRE Group (HRE) succeeded in significantly reducing pre-tax losses in the third quarter compared with the same quarter of the previous year, to € -408 million (Q3 2009: € -709 million). Against the background of a slight recovery on the markets, one of the key factors here was the lower provisions for losses on loans and advances. This can also be seen in the improved results of pbb Deutsche Pfandbriefbank. For the first time since the outbreak of the financial markets crisis, pbb Deutsche Pfandbriefbank, the Group's strategic core bank, achieved a positive result before taxes of € 119 million in the third quarter (Q3 2009: € -321 million). From today's perspective, the Group expects that pbb Deutsche Pfandbriefbank will continue to be profitable in the fourth quarter of 2010, as well as in the 2011 financial year.

Manuela Better, CEO of HRE Holding AG, said: "The Group benefited from a slight recovery on the markets during the third quarter. However, the figures also reflect the success achieved in the restructuring and realignment of the Group. The fact that pbb Deutsche Pfandbriefbank – our strategic core bank – has returned to profit gives us reason to be very positive. It is an important signal; one that will not only allow for the sustained establishment of the bank on the credit and capital markets, but also a signal that bodes well for the targeted privatisation."

The results for the third quarter do not yet show relief provided by the effects of the asset transfer to FMS Wertmanagement as of 1 October 2010. The quarterly results of HRE and pbb Deutsche Pfandbriefbank can also, therefore only be projected to future quarters to a limited extent.

HRE Group – results for the third quarter and the first nine months

The *operating revenues* of HRE Group **in the third quarter of 2010** amounted to € -244 million (Q3 2009: € 244 million), resulting on the one hand from lower net interest income of € 197 million compared with the same period of the previous year (Q3 2009: € 333 million). This figure was affected by the risk-oriented reduction in receivables as well as repayments, including those pertaining to the liquidity facility the bank had strongly benefited from during the previous year. On the other hand, net trading income of € -153 million was down significantly on the same quarter of the previous year (Q3 2009: € 25 million). This was due in particular to measurement losses on a securities port-

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folio that was transferred to FMS Wertmanagement on 1 October. Finally, the balance of other operating income/expenses of € -182 million (Q3 2009: € 12 million) was burdened by provisions recognised in the course of the transfer of assets to FMS Wertmanagement.

During the third quarter, HRE incurred costs totalling € 139 million (Q3 2009: € 125 million) for the guarantees extended to it within the scope of the liquidity support facility provided by SoFFin. Overall, since 2008 HRE has recognised expenses in excess of € 1.2 billion for payments extended on the liquidity support provided by the government and SoFFin in the financial results for the Group.

The decline in operating revenues is more than offset by lower *provisions for losses on loans and advances*: the reversal of portfolio-based provisions for losses on loans and advances in the third quarter exceeded additions to specific provisions, resulting in a slightly positive net figure of € 2 million (Q3 2009: € -810 million).

For the **first nine months of 2010** HRE posted a *pre-tax result* of € -1,127 million after a loss of € -1,779 million in the corresponding period of the previous year.

pbb Deutsche Pfandbriefbank posts positive pre-tax result in Q3

With a *pre-tax result* of € 119 million (Q3 2009: € -321 million) pbb Deutsche Pfandbriefbank achieved a positive pre-tax result for the **third quarter of 2010** – the first time since the fourth quarter of 2008. Lower *provisions for losses on loans and advances* of € -17 million (Q3 2009: € -631 million) in particular, had a positive effect on the overall result. *Operative revenues* declined in absolute terms, from € 390 million (Q3 2009) to € 241 million. Net interest income amounted to € 161 million (Q3 2009: € 247 million). In the same quarter of the previous year, the interest income was positively influenced by one-off effects. The reduction of interest-bearing assets also had an effect on the quarter under review. Net trading income fell from € 162 million (Q3 2009) to € 110 million.

For the **first nine months of 2010**, pbb Deutsche Pfandbriefbank posted a *pre-tax result* of € -233 million (9m 2009: € -1,384 million – aggregated figure reflecting the merger of the predecessor companies before the end of the year).

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Note to editors:

We have included tables providing information on the consolidated income statement of HRE Group and the income statement of pbb Deutsche Pfandbriefbank.

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

HRE Group				
	Q3 2009	9 months 2009	Q3 2010	9 months 2010
Operating revenues	244	512	-244	-259
Net interest and similar income	333	1,049	197	736
Net commission income	-97	-304	-125	-323
Net trading income	25	-2	-153	-431
Net income from financial investments	1	-43	18	16
Net income from hedge relationships	-30	-137	1	-63
Balance of other operating income / expenses	12	-51	-182	-194
Provisions for losses on loans and advances	-810	-1887	2	-452
General administrative expenses	-142	-393	-167	-419
Balance of other income/expenses	-1	-11	1	3
Pre-tax profit/loss	-709	-1,779	-408	-1,127
Profit/loss after tax	-574	-1,706	-445	-1,145

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

Deutsche Pfandbriefbank				
	Q3 2009	9 months 2009¹⁾	Q3 2010	9 months 2010
Operating revenues	390	495	241	461
Net interest and similar income	247	576	161	491
Net commission income	1	-11	-12	-20
Net trading income	162	54	110	62
Net income from financial investments	-19	-47	-1	-18
Net income from hedge relationships	-8	-41	-2	-41
Balance of other operating income/expenses	7	-36	-15	-13
Provisions for losses on loans and advances	-631	-1680	-17	-418
General administrative expenses	-82	-214	-105	-276
Net other income and expenses	2	15	0	0
Pre-tax profit/loss	-321	-1,384	119	-233
Profit/loss after tax	--	-1,295	87	-247

1) Aggregated figures