Press release

HRE proceeds with consolidation process, further reducing losses

- **Losses reduced to € -395 million for the second quarter 2010**
- **Results burdened by net trading results and guarantee fees**
- **Loan-loss provisions markedly lower than in the second quarter 2009**

Munich, 13 August 2010 – The HRE Group (HRE) has continued to make progress in its consolidation process. The Group markedly reduced its losses year-on-year for the second quarter 2010, despite the strained situation in real estate finance markets. HRE posted pre-tax losses of € -395 million for the second quarter of 2010 (Q2 2009: € -664 million). As in the previous year, results were significantly affected by loan-loss provisions and expenses for liquidity support facilities; in addition, net trading income was negative.

Manuela Better, CEO of HRE Holding AG, commented on the results: "The year 2010 marks a period of transition, from stabilising and restructuring, to achieving a realigned Group structure. We continue to make good progress in building a sustainable presence for pbb Deutsche Pfandbriefbank on the credit and funding markets, and in further stabilising DEPFA."

HRE still anticipates posting a loss for the full year 2010. The Group plans to give guidance for 2011 towards the end of this year, once the planned transfer of non-strategic assets and risk positions to FMS Wertmanagement has been concluded.

Operating revenues during the second quarter of 2010 declined to € -66 million, in the absence of special effects that had benefited the figure for the same quarter in the previous year (Q2 2009: € 348 million). *Net interest income* declined to € 248 million (Q2 2009: € 345 million); the previous year's figure reflected a favourable funding environment, with falling money-market rates, and with clients in the US drawing on additional liquidity facilities at high interest rates. The *net trading result* of € -173 million (Q2 2009: € 135 million) was burdened in particular by increased default risk on interest rate hedges entered into for clients: this required provisioning in the amount of € -108 million (Q2 2009: provisions of € -23 million). At € -98 million, *net commission income* was virtually unchanged (Q2 2009: € -99 million). The net figure includes expenses for guarantees drawn within the framework of the liquidity support facility provided by SoFFin; due to a restructuring of the facility at the end of 2009, these expenses decreased to € 120 million for the second quarter (Q2 2009: € 128 million).

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At € 194 million, **provisions for losses on loans and advances** were markedly lower than in the previous year (Q2 2009: € 881 million). The lion's share of the loan-loss provisions was recognised on real estate loans, reflecting the strained situation still present on real estate markets.

HRE's **consolidated total assets** as at 30 June 2010 amounted to € 384.9 billion, after € 359.7 billion as at 31 December 2009. Even though the Group reduced its lending volume, in line with the adopted strategy, total assets rose as a result of market factors including the weakness of the euro: with the euro as the reporting currency, the carrying amount of foreign-currency assets and liabilities has risen due to currency translation effects.

Including the recapitalisation tranche of € 1.4 billion provided by SoFFin in May 2010, HRE's tier 1 capital stood at approximately € 7.1 billion as at 30 June 2010, which equates to a **tier 1 ratio** of 8.4 per cent. This number does not yet include the losses of the first six months 2010.

For the **first half of 2010,** HRE posted pre-tax losses of € -719 million after € -1,070 million in the first half of 2009. Operating revenues declined to € -15 million (H1 2009: € 268 million), also on account of lower net interest income of € 539 million (H1 2009: € 716 million) and the negative net trading income of € -278 million (H1 2009: € -27 million). Net commission income, at € -198 million, showed a slight year-on-year improvement (H1 2009: € -207 million). This item was burdened by expenses for guarantees drawn within the framework of the liquidity support facility provided by SoFFin; these expenses decreased to € 239 million for the first half of the year (H1 2009: € 257 million). Despite a marked decline, provisions for losses on loans and advances still amounted to € 454 million (H1 2009: € 1,077 million).

Note to editors:
We have attached tables regarding the income statement, and the statement of financial position.

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Table 1: Consolidated income statement

Income/expenses in € million	Note · Page	1.1.–30.6.2010	1.1.–30.6.2009	Change in € million	Change in %
Operating revenues		−15	268	−283	< −100.0
Net interest income and similar income	8 · 85	539	716	−177	−24.7
Interest income and similar income		4,733	6,430	−1,697	−26.4
Interest expenses and similar expenses		4,194	5,714	−1,520	−26.6
Net commission income	9 · 85	−198	−207	9	4.3
Commission income		56	70	−14	−20.0
Commission expenses		254	277	−23	−8.3
Net trading income	10 · 85	−278	−27	−251	< −100.0
Net income from financial investments	11 · 85	−2	−44	42	95.5
Net income from hedge relationships	12 · 85	−64	−107	43	40.2
Balance of other operating income/expenses	13 · 86	−12	−63	51	81.0
Provisions for losses on loans and advances	14 · 86	454	1,077	−623	−57.8
General administrative expenses	15 · 86	252	251	1	0.4
Balance of other income/expenses	16 · 86	2	−10	12	> 100.0
Pre-tax profit/loss		**−719**	**−1,070**	351	32.8
Taxes on income	17 · 86	−19	62	−81	< −100.0
Net income/loss		**−700**	**−1,132**	432	38.2

Table 2: Statement of financial position

Assets in € million	Note · Page	30.6.2010	31.12.2009	Change in € million	Change in %	31.12.2008
Cash reserve		535	1,824	−1,289	−70.7	1,713
Trading assets	19 · 87	12,289	10,749	1,540	14.3	17,287
Loans and advances to other banks	20 · 87	31,630	37,521	−5,891	−15.7	49,409
Loans and advances to customers	21 · 87	95,179	198,344	−103,165	−52.0	222,048
Allowances for losses on loans and advances	23 · 88	−1,343	−3,898	2,555	65.5	−2,277
Financial investments	24 · 88	26,346	94,808	−68,462	−72.2	108,740
Property, plant and equipment		10	15	−5	−33.3	32
Intangible assets		40	44	−4	−9.1	40
Other assets	25 · 90	20,539	15,399	5,140	33.4	17,396
Income tax assets	26 · 90	5,417	4,870	547	11.2	5,266
Current tax assets		81	146	−65	−44.5	132
Deferred tax assets		5,336	4,724	612	13.0	5,134
Disposal group	37 · 97	194,229	—	194,229	> 100.0	—
Total assets		**384,871**	**359,676**	25,195	7.0	**419,654**

Equity and liabilities in € million	Note · Page	30.6.2010	31.12.2009	Change in € million	Change in %	31.12.2008
Liabilities to other banks	27 · 90	155,808	137,349	18,459	13.4	146,878
Liabilities to customers	28 · 90	15,172	13,259	1,913	14.4	15,936
Liabilities evidenced by certificates	29 · 90	125,184	156,376	−31,192	−19.9	197,978
Trading liabilities	30 · 90	16,121	11,391	4,730	41.5	17,236
Provisions	31 · 91	227	249	−22	−8.8	352
Other liabilities	32 · 93	40,289	29,250	11,039	37.7	33,835
Income tax liabilities	33 · 93	4,175	3,976	199	5.0	4,163
Current tax liabilities		115	113	2	1.8	161
Deferred tax liabilities		4,060	3,863	197	5.1	4,002
Subordinated capital	34 · 93	3,122	3,217	−95	−3.0	4,784
Disposal group	37 · 97	21,569	—	21,569	> 100.0	—
Liabilities		**381,667**	**355,067**	26,600	7.5	**421,162**
Subscribed capital		3,649	3,649	—	—	633
Hybrid capital instruments[1]		1,043	1,043	—	—	—
Silent participation[2]		999	999	—	—	—
Additional paid-in capital		9,751	8,351	1,400	16.8	6,352
Retained earnings		−6,594	−4,368	−2,226	−51.0	1,085
Revaluation reserve		−864	−2,829	1,965	69.5	−4,117
AfS reserve		−812	−2,267	1,455	64.2	−3,115
Cash flow hedge reserve		−52	−562	510	90.7	−1,002
Consolidated loss 1.1.–31.12.		—	−2,236	2,236	100.0	−5,461
Consolidated loss 1.1.–30.6.2010		−700	—	−700	< −100.0	—
Amounts recognised in equity relating to disposal group	37 · 97	−4,080	—	−4,080	< −100.0	—
Equity		**3,204**	**4,609**	−1,405	−30.5	**−1,508**
Total equity and liabilities		**384,871**	**359,676**	25,195	7.0	**419,654**

[1] Hybrid capital instruments of the subsidiary DEPFA Bank plc which had to be reclassified according to IAS 32 under equity instead of under subordinated capital (non-controlling interest)
[2] Silent participation of SoFFin to the subsidiary Deutsche Pfandbriefbank AG (non-controlling interest)