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Press release

pbb Deutsche Pfandbriefbank: Quarterly profit and successful new business origination affirm the positive trend

- **Pre-tax profit of € 52 million for Q1 2011 – third profitable quarter in a row**
- **New business of € 2.2 billion, in line with the budget**
- **HRE Group posts € 163 million in profit before taxes**

Munich, 20 May 2011 – pbb Deutsche Pfandbriefbank had a successful start to the 2011 financial year, with a pre-tax profit of € 52 million for the first quarter. Following up on the two profitable quarters during the second half of 2010, the quarterly figures underscore the bank's profitability following the restructuring of the Group – now largely completed. In the same period of the previous year, the result was still negative, at € -177 million.

The positive trend during Q1 2011 was evident both in higher operating revenues as well as in lower provisions for losses on loans and advances. Operating revenues increased to € 131 million (Q1 2010: € 121 million), even though the portfolio is now significantly smaller. A net € 2 million in provisions for losses on loans and advances was reversed (Q1 2010: net addition of € 226 million), which reflected the recovery of some markets.

The bank's successful return to the markets was reflected in the volume of new business of € 2.2 billion (including extensions with a term of more than twelve months), which was markedly higher year-on-year. Of the aggregate amount, € 1.6 billion was accounted for by real estate finance exposures (with average gross margins in excess of 190 basis points), and € 0.6 billion by public-sector finance (where average margins were above 100 basis points). A total of 35 new transactions were concluded.

Manuela Better, CEO of pbb Deutsche Pfandbriefbank, affirmed expectations for the full year 2011, against the background of the sound performance for the first quarter: "We are right on track, focusing on the market and on our clients. A positive conclusion of EU state aid control proceedings – which we expect during the first half of this year – should provide us with added momentum on the markets. We remain highly confident that we will achieve our objectives, and that pbb Deutsche Pfandbriefbank will post a profit for 2011 as a whole."



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The **income statement** shows significant changes in various items, which reflected the restructuring of pbb Deutsche Pfandbriefbank. Specifically, the realignment was largely completed during 2010, with the split of existing portfolio into a strategic and a non-strategic part and the subsequent transfer of the non-strategic portfolio to FMS Wertmanagement: during the current year, the bank is once again focusing on its core business.

- Overall, *operating revenues* increased to € 131 million (Q1 2010: € 121 million)

Given the lower volume of interest-bearing assets, the decline in *net interest income*, to € 97 million (Q1 2010: € 166 million) was expected. At the same time, expenses for liquidity support by SoFFin no longer needed to be paid. Net commission income increased to € 14 million during the first quarter of 2011 (Q1 2010: € -7 million).

- In addition, pbb Deutsche Pfandbriefbank generated € 29 million in servicing income from FMS Wertmanagement; this was reflected in a markedly higher balance of *other operating income/expenses* (€ 44 million; Q1 2010: € 4 million).

The additional income offset additional servicing expenses incurred by pbb Deutsche Pfandbriefbank, due to which *general administrative expenses* rose to € 81 million (Q1 2010: € 73 million). Adjusted for these items, pbb Deutsche Pfandbriefbank lowered its costs.

- Changes to the portfolio were also reflected in provisions for losses on loans and advances. The strategic portfolio of exposures retained by pbb Deutsche Pfandbriefbank benefited from the stabilisation of real estate markets in particular. Accordingly, reversals of provisions for losses on loans and advances exceeded new provisioning by € 2 million – in the same quarter of the previous year, net provisions of € -226 million were recognised.

Total assets declined by more than 17 percent from the 2010 year-end, to € 155 billion (31 Dec 2010: € 187 billion). Counter effects, which occurred upon the transfer of positions, had initially led to an increase in total assets in October 2010. These effects were significantly reduced during the fourth quarter of 2010 and the first quarter of 2011, as planned.



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HRE Group

The **HRE Group**, which comprises pbb Deutsche Pfandbriefbank and its subsidiaries as well as the DEPFA sub-group, also confirmed the positive trend in the first quarter of 2011, with a profit before taxes of € 163 million (Q1 2010: € -324 million). This means that the Group has now been profitable for two consecutive quarters. The level of results was supported by non-recurring effects, such as the early redemption of liabilities.

At € 118 million, this effect was particularly pronounced at the **DEPFA sub-group**, where the profit from the repurchase of covered bonds in particular was offset by a € 19 million loss realised upon the sale of assets no longer included in cover. Including these non-recurring effects, the DEPFA sub-group posted € 125 million in profit before taxes (Q1 2010: € -117 million); like the HRE Group overall, the sub-group has therefore been profitable for the second quarter in a row.

Consolidated total assets of HRE Group were down € 61 billion, to € 267 billion; this decline also reflected the reduction in extension effects, which occurred in relation to the transfer of positions.

Note to editors:

We have included tables providing information on the consolidated income statement of Deutsche Pfandbriefbank sub-group, and on the consolidated income statement of HRE Group.

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Table 1:
Consolidated Income Statement of the Deutsche Pfandbriefbank sub-group (€ million)

Deutsche Pfandbriefbank sub-group	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Operating revenues	121	99	241	191	131
Net interest and similar income	166	164	161	109	97
Net commission income	-7	-1	-12	10	14
Net trading income	-12	-36	110	15	-8
Net income from financial investments	-13	-4	-1	1	-1
Net income from hedge relationships	-17	-22	-2	-4	-15
Balance of other operating income/expenses	4	-2	-15	60	44
Provisions for losses on loans and advances	-226	-175	-17	-25	2
General administrative expenses	-73	-98	-105	-76	-81
Balance of other income/expenses	1	-1	0	8	0
Pre-tax profit/loss	-177	-175	119	98	52

Table 2:
Consolidated Income Statement of HRE Group (€ million)

Hypo Real Estate Group	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Operating revenues	51	-66	-244	348	260
Net interest and similar income	291	248	197	104	218
Net commission income	-100	-98	-125	4	8
Net trading income	-105	-173	-153	67	-7
Net income from financial investments	-11	9	18	-2	-20
Net income from hedge relationships	-20	-44	1	7	-4
Balance of other operating income/expenses	-4	-8	-182	168	65
Provisions for losses on loans and advances	-260	-194	2	7	9
General administrative expenses	-115	-137	-167	-97	-106
Balance of other income/expenses	0	2	1	10	0
Pre-tax profit/loss	-324	-395	-408	268	163