



DEUTSCHE
PFANDBRIEFBANK

Press Release

pbb Deutsche Pfandbriefbank remains profitable

- **Third-quarter pre-tax profit of € 43 million – nine-month result of € 163 million**
- **Q3 new business (including extensions) of € 1.6 billion**
- **Manuela Better: "pbb remains on course in a difficult environment"**

Munich, 15 November 2011 – During the third quarter of 2011, pbb Deutsche Pfandbriefbank generated a pre-tax profit (in accordance with IFRS) of € 43 million. This means that pbb has posted a profit for the 5th consecutive quarter. Pre-tax profit for the first nine months of the financial year rose to € 163 million (9m 2010: € -233 million). The specialist lender for Real Estate and Public Investment Finance originated € 1.6 billion in new business (including extensions beyond 12 months) during the quarter under review, in spite of a market environment that has recently grown more challenging. Aggregate new business volume of € 5.7 billion for the current year is therefore largely within budget. Of the total new business, € 4.3 billion was accounted for by Real Estate Finance (with gross margins in excess of 190 basis points), and € 1.4 billion by Public Finance (where gross margins were above 100 basis points).

Manuela Better, CEO of pbb Deutsche Pfandbriefbank, commented: "pbb has held its course, even in a market environment dominated by the sovereign debt crisis. Whilst we take the market environment into account when providing finance, we are committed to remaining a reliable partner for our clients, particularly in the current situation. We are adopting a selective stance, particularly in Public Investment Finance. The quality of our portfolio is our utmost priority." Manuela Better said that she considered the bank's 2011 full-year new business target of up to € 8 billion to be still achievable, subject to an appropriate market environment.

The financial statements for the third quarter are only comparable to a very limited extent with the figures of the previous year. Specifically, this is due to the fact that the transfer of non-strategic assets to the FMS Wertmanagement ("FMS-WM") had not yet taken place during the same period of the previous year, which was additionally characterised by non-recurring effects.

The **income statement** (in accordance with IFRS) of the Deutsche Pfandbriefbank sub-group for the third quarter of 2011 is broken down as follows:

- **Operating revenues** totalled € 129 million, comprising *net interest income* of € 101 million and a *balance of other operating income and expenses* of € 25 million. The latter figure largely includes income from the servicing for FMS-WM, income generated by pbb Services for IT services rendered to DEPF, and provisions recognised.
- Looking at **provisions for losses on loans and advances**, additions for a very few cases were virtually offset by releases, resulting in net income of € 1 million. Net additions to loan-loss provisions for individual loans totalled € 10 million, whilst € 11 million in portfolio based allowances and provisions for losses in guarantees and indemnities were released.
- **General administrative expenses** amounted to € 87 million, including expenses for servicing on behalf of FMS-WM.

Total assets of the Deutsche Pfandbriefbank sub-group showed a marked decline since the beginning of the year, to approximately € 121 billion as at 30 September 2011 (31 December 2010: € 187 billion). The decline was also due to the continued reduction in counter effects, which occurred in relation to the transfer of assets to FMS-WM in October 2010. Adjusted for these effects, the sub-group's total assets attributable to its operating activities stood at € 101 billion. The increase compared to the end of June 2011 (30 June 2011: € 94 billion) was exclusively due to market-induced effects.

HRE Group and DEPFA sub-group

The **HRE Group**, which comprises pbb Deutsche Pfandbriefbank and its subsidiaries as well as the DEPFA sub-group, posted a profit before taxes (in accordance with IFRS) of € 36 million for the third quarter, and of € 252 million for the first nine months of 2011 (9m 2010: € -1.127 billion). This means that the Group has now been profitable for four consecutive quarters, which also reflects the marked enhancement in portfolio quality, as well as the realignment of the Group and its subsidiaries. Due to market-induced effects, especially lower long-term interest rates, consolidated total assets rose slightly to € 243 billion, up 4% since the end of June 2011. Nonetheless, the effects from the transfer of assets to FMS-WM continued to be reduced. At the end of 2010, consolidated total assets still amounted to € 328 billion.

The **DEPFA sub-group** posted € 10 million in pre-tax profit (in accordance with IFRS) for the third quarter of 2011. DEPFA's pre-tax profit for the first nine months of the financial year rose to € 154 million (9m 2010: € -769 million).

Second instalment of payment obligation to FMS-WM

On November 15, HRE Group makes the second instalment of Euro 167 million of the total required payment (purchase price adjustment) of Euro 1.59 billion, to FMS-WM. As was the case with the first instalment of € 800 million in September 2011, this instalment will also be carried out by the DEPFA sub-group. It is planned that the remaining amount of Euro 623 million will also be paid by the entities within the DEPFA sub-group. The payments have no P&L effect but reduce equity. In order to avoid distortion of competition, the German Financial Market Stabilisation Agency (FMSA) had reserved the right to stipulate such a required payment within the framework of the transfer of assets from HRE Group to FMS-WM. The European Commission made the settlement of the payment obligation under specific conditions as part of the decision on the state aid proceedings. With the payment, HRE Group passes a portion of the support received from the Federal Republic of Germany to FMS-WM.

Note to editors:

Attached please find tables providing information (in accordance with IFRS) on the income statement of the pbb Deutsche Pfandbriefbank sub-group, and on the consolidated income statement of HRE Group.

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Consolidated Income Statement of the pbb Deutsche Pfandbriefbank sub-group (€ million)

pbb Deutsche Pfandbriefbank sub-group	Q3 2010	9m 2010	Q1 2011	Q2 2011	Q3 2011	9m 2011
Operating revenues	241	461	131	162	129	422
Net interest and similar income	161	491	97	95	101	293
Net commission income	-12	-20	14	5	6	25
Net trading income	110	62	-8	8	4	4
Net income from financial investments	-1	-18	-1	-	-	-1
Net income from hedge relationships	-2	-41	-15	-12	-7	-34
Balance of other operating income/expenses	-15	-13	44	66	25	135
Provisions for losses on loans and advances	17	418	-2	1	-1	-2
General administrative expenses	105	276	81	93	87	261
Balance of other income/expenses	-	-	-	-	-	-
Pre-tax profit/loss	119	-233	52	68	43	163

Consolidated Income Statement (in accordance with IFRS) of HRE Group (€ million)

Hypo Real Estate Group	Q3 2010*	9m 2010*	Q1 2011	Q2 2011	Q3 2011	9m 2011
Operating revenues	-244	-259	260	177	152	589
Net interest and similar income	197	675	218	141	114	473
Net commission income	-125	-323	8	-	-1	7
Net trading income	-153	-431	-7	12	9	14
Net income from financial investments	18	77	-20	-15	-2	-37
Net income from hedge relationships	1	-63	-4	-17	7	-14
Balance of other operating income/expenses	-182	-194	65	56	25	146
Provisions for losses on loans and advances	-2	452	-9	-11	1	-19
General administrative expenses	167	419	106	136	115	357
Balance of other income/expenses	1	3	-	1	-	1
Pre-tax profit/loss	-408	-1,127	163	53	36	252

* Including the effects on income from the reclassification of securities from "Loans and advances to customers" to "Investment securities", to ensure the uniform allocation of all securities to the IFRS category of "Loans and receivables" (LaR).