



Press Release

pbb Deutsche Pfandbriefbank posts profit increase during the second quarter

- Pre-tax profit rises to € 30 million (Q1 2012: € 21 million)
- Successful refinancing activities in a difficult market environment

Munich, 14 August 2012 – During the second quarter of 2012, pbb Deutsche Pfandbriefbank increased pre-tax profit (in accordance with IFRS) to € 30 million, up from € 21 million in the first quarter. With a total pre-tax profit of € 51 million for the first half of 2012, pbb Deutsche Pfandbriefbank's performance is within expectations. The Management Board has affirmed its full-year target for pre-tax profit in a range of € 100 million to € 140 million.

New business remained subdued during the second quarter, with a volume of € 0.7 billion (Q1 2012: € 0.8 billion; both figures include extensions for more than one year). This development continued to reflect the bank's reduced origination activities at the end of 2011 and the beginning of 2012, in the wake of uncertain funding markets at the time. The Real Estate Finance division accounted for € 1.2 billion of the total € 1.5 billion new business during the first half-year; € 0.3 billion was originated in Public Investment Finance. Average gross margins generated on new business remained considerably higher than in 2011: during the first half of 2012, margins in Real Estate Finance rose to more than 240 basis points (bp); for the full year 2011 they were over 205 bp. Public Investment Finance generated average gross margins of more than 140 bp in the first half: the figure for the full year 2011 was over 105 bp.

Barring any major changes to the market environment, the specialist lender for Real Estate Finance and Public Investment Finance anticipates a marked increase in new business during the second half of the year. In July, the bank originated new business of € 0.6 billion (preliminary figure, including extensions for more than one year) with overall business activities significantly increasing. The bank affirmed its full-year guidance of € 8 billion in new business for 2012.

Through its successful funding activities during the first half of the year, pbb Deutsche Pfandbriefbank has built the foundation for growing its new business. The bank raised a total of approximately € 3.7 billion in long-term funding during the first six months (excluding money market and ECB repo transactions), with Pfandbrief issues accounting for the lion's share. The average term of new funds raised exceeded six years.

Manuela Better, CEO of pbb Deutsche Pfandbriefbank AG, said: "The results for the first six months of the year are in line with our expectations. We aim to boost new business during the second half of the year. Thanks to our success on the funding markets during the first half of 2012, we have sufficient liquidity at our disposal to retain a comfortable liquidity position in the event of a marked increase in new business."

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Details of the **consolidated income statement** (in accordance with IFRS) for the second quarter were as follows:

- **Operating revenues** showed a marked increase, to € 120 million (Q1 2012: € 103 million). *Net interest income* of € 74 million (Q1 2012: € 76 million), which was again burdened by a conservative liquidity strategy, and the *net commission income* of € 3 million (Q1 2012: € 3 million) remained virtually stable. The improvement resulted from an increased *net income from financial investments* of € 9 million (Q1 2012: € -4 million) which was affected from gains resulting from the sale of assets as part of an adjustment of the liquidity buffer, as well as a reduction in portfolio based loan loss provisions. In addition to this, the *balance of other operating income/expenses* increased to € 37 million (Q1 2012: € 30 million).
- As in the previous quarter, new **provisions for losses on loans and advances** remained at a low level of € 5 million (Q1 2012: € 4 million), and were limited to just a few exposures that required provisioning.
- **General administrative expenses** rose to € 86 million (Q1 2012: € 78 million), particularly on account of expenditure for a project to harmonise the Group's IT infrastructure (scheduled for completion this year).

Consolidated total assets (in accordance with IFRS) rose slightly, to € 105 billion (31 March 2012: € 104 billion), despite the reduction of counter effects which occurred in relation to the transfer of assets to FMS Wertmanagement and the planned reduction of some portfolios. The reduction of counter effects from the transfer of assets was offset by the increased passing-through of excess liquidity from FMS Wertmanagement, placed with the central bank.

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 second-quarter **profit before taxes** (in accordance with IFRS) of € 69 million (Q1 2012: € 12 million). HRE Group's **consolidated total assets** (in accordance with IFRS) as at 30 June 2012 amounted to € 190 billion, after € 237 billion as at 31 December 2011.

The DEPFA sub-group posted pre-tax profit (in accordance with IFRS) of € 41 million for the second quarter of 2012 (Q1 2012: € -8 million); the buy-back of debt instruments had a positive effect upon results.

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

pbb Deutsche Pfandbriefbank sub-group	Q2 2011	Q3 2011	Q4 2011	FY 2011	Q1 2012	Q2 2012	H1 2012
Operating revenues	162	129	104	526	103	120	223
Net interest income and similar income	95	101	78	371	76	74	150
Net commission income	5	6	7	32	3	3	6
Net trading income	8	4	-12	-8	0	-2	-2
Net income from financial investments	0	0	4	3	-4	9	5
Net income from hedge relationships	-12	-7	-22	-56	-2	-1	-3
Balance of other operating income/expenses	66	25	49	184	30	37	67
Provisions for losses on loans and advances	1	-1	-10	-12	4	5	9
General administrative expenses	93	87	96	357	78	86	164
Balance of other income/expenses	0	0	7	7	0	1	1
Pre-tax profit/loss	68	43	25	188	21	30	51

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

Hypo Real Estate Group	Q2 2011	Q3 2011	Q4 2011	FY 2011	Q1 2012	Q2 2012	H1 2012
Operating revenues	177	152	96	685	112	184	296
Net interest income and similar income	141	114	93	566	90	119	209
Net commission income	0	-1	5	12	-2	-1	-3
Net trading income	12	9	-5	9	-14	-1	-15
Net income from financial investments	-15	-2	-13	-50	-6	7	1
Net income from hedge relationships	-17	7	-39	-53	-2	23	21
Balance of other operating income/expenses	56	25	55	201	46	37	83
Provisions for losses on loans and advances	-11	1	-24	-43	2	9	11
General administrative expenses	136	115	120	477	98	106	204
Balance of other income/expenses	1	0	5	6	0	0	0
Pre-tax profit/loss	53	36	5	257	12	69	81