

Press release



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pbb Deutsche Pfandbriefbank posts Q3 earnings, highest quarterly result so far in 2012

- Third-quarter pre-tax profit rises to € 49 million
- Nine-month results affirm target range for the full year
- CEO Manuela Better: "Results show the expected positive development"

Munich, 13 November 2012 – pbb Deutsche Pfandbriefbank posted another increase in its performance during the third quarter of 2012. Its pre-tax profit of € 49 million (in accordance with IFRS) was the highest quarterly result so far this year (Q2 2012: € 30 million; Q1 2012: € 21 million). Moreover, with a pre-tax profit of € 100 million for the first nine months of the year, the bank has also demonstrated that its full-year target – projected in a range between € 100 million and € 140 million – is built on a solid foundation. The improvement of results during the third quarter was attributable, in particular, to a marked increase in net commission income, which benefited from back-end fees upon final loan maturity, and exit fees in connections with loan restructurings. Moreover, the bank was able to release € 7 million in provisions for losses on loans and advances (Q2 2012: addition of € 5 million).

Manuela Better, CEO of pbb Deutsche Pfandbriefbank, said: "The results clearly show the expected positive development. In fact, the third-quarter performance has exceeded our own projections. We expect our new business to grow further in the fourth quarter."

New business gained momentum during the third quarter: Including extensions for more than one year, pbb Deutsche Pfandbriefbank originated approximately € 1.4 billion in new business, thus matching the volumes achieved throughout the first six months (H1 2012: € 1.5 billion). Real Estate Finance accounted for approximately € 2.5 billion of the total € 2.9 billion new business originated during the first nine months; around € 0.4 billion was originated in Public Investment Finance. Gross margins remained stable, at a high level. During the first nine months of 2012, average gross margins in Real Estate Finance remained above 240 basis points (bp); for the full year 2011 they were just over 205 bp. Public Investment Finance generated a margin of more than 140 bp in the first half: the figure for the full year 2011 was over 105 bp. The specialist lender for Real Estate Finance and Public Investment Finance anticipates further increases in new business during the fourth quarter of the year. In September and October of this year, pbb Deutsche Pfandbriefbank further strengthened its origination presence with new offices in Stockholm, Berlin, and Hamburg.

Thanks to its successful funding activities during the first nine months of the year, pbb Deutsche Pfandbriefbank was able to build the foundations for a further expansion in new business activities. The bank raised long-term funds totalling € 5.7 billion (excluding money-market funds and ECB repo transactions). The average term of new funds raised exceeded six years. Moreover, pbb Deutsche Pfandbriefbank returned to the market for unsecured issues during the third quarter of 2012: in September, the bank placed a € 500 million senior unsecured benchmark bond, which was increased by € 250 million shortly afterwards.

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The details of the **Deutsche Pfandbriefbank** sub-group **income statement** (in accordance with IFRS) for the third quarter of 2012 were as follows:

- **Operating revenues** increased to € 130 million (Q2 2012: € 120 million). *Net interest income* declined slightly, to € 72 million (Q2 2012: € 74 million), reflecting the lower basis of interest-bearing assets and an increased level of the liquidity buffer. *Net commission income* of € 14 million (Q2 2012: € 3 million) benefited from back-end fees upon final loan maturity, and exit fees in connection with loan restructurings, totalling € 10 million. As in the previous quarter, *net income from financial investments* of € 6 million (Q2 2012: € 9 million) was influenced positively by gains from the sale of securities (as part of the adjustment of the liquidity buffer). The *balance of other operating income/expenses* declined slightly, to € 34 million (Q2 2012: € 37 million).
- Releases of provisions for losses on loans and advances, and of provisions for the lending business, generated income of € 7 million in **provisions for losses on loans and advances** (Q2 2012: addition of € 5 million).
- **General administrative expenses** of € 89 million were slightly higher in the third quarter (Q2 2012: € 86 million), mainly due to higher IT costs incurred in connection with the consolidation of the Group's IT environment.

Total assets of the Deutsche Pfandbriefbank sub-group (in accordance with IFRS) as at 30 September 2012 further declined to € 101 billion. The decrease – by approximately € 4 billion during the third quarter (30 June 2012: € 105 billion) – was primarily due to a lower level of placements by FMS Wertmanagement passed on to the European Central Bank. Moreover, this reflected the continued reduction of counter effects which had occurred in relation to the transfer of assets to FMS Wertmanagement.

HRE Group

The **HRE Group**, which comprises pbb Deutsche Pfandbriefbank and its subsidiaries as well as the DEPFA sub-group, posted a better than expected third-quarter **profit before taxes** (in accordance with IFRS) of € 38 million (Q2 2012: € 69 million). HRE Group's consolidated total assets as at 30 September 2012 amounted to € 182 billion, after € 237 billion as at 31 December 2011.

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**Consolidated Income Statement (in accordance with IFRS) of the
pbb Deutsche Pfandbriefbank sub-group (€ million)**

pbb Deutsche Pfandbriefbank sub-group	Q3 2011	9m 2011	Q1 2012	Q2 2012	Q3 2012	9m 2012
Operating revenues	129	422	103	120	130	353
Net interest income and similar income	101	293	76	74	72	222
Net commission income	6	25	3	3	14	20
Net trading income	4	4	-	-2	1	-1
Net income from financial investments	-	-1	-4	9	6	11
Net income from hedge relationships	-7	-34	-2	-1	3	-
Balance of other operating income/expenses	25	135	30	37	34	101
Provisions for losses on loans and advances	-1	-2	4	5	-7	2
General administrative expenses	87	261	78	86	89	253
Balance of other income/expenses	-	-	-	1	1	2
Pre-tax profit/loss	43	163	21	30	49	100

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

Hypo Real Estate Group	Q3 2011	9m 2011	Q1 2012	Q2 2012	Q3 2012	9m 2012
Operating revenues	152	589	112	184	134	430
Net interest income and similar income	114	473	90	119	92	301
Net commission income	-1	7	-2	-1	8	5
Net trading income	9	14	-14	-1	-1	-16
Net income from financial investments	-2	-37	-6	7	2	3
Net income from hedge relationships	7	-14	-2	23	-13	8
Balance of other operating income/expenses	25	146	46	37	46	129
Provisions for losses on loans and advances	1	-19	2	9	-11	-
General administrative expenses	115	357	98	106	109	313
Balance of other income/expenses	-	1	-	-	2	2
Pre-tax profit/loss	36	252	12	69	38	119