PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

Press release

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PFANDBRIEFBANK

pbb Deutsche Pfandbriefbank is profitable with pre-tax profit of € 188 million

- **New business target of € 8 billion achieved**
- **DEPFA sub-group and HRE Group also clearly profitable**
- **pbb takes another important step towards an efficient specialist bank that is ready for re-privatisation**

Munich, 1 March 2012 – pbb Deutsche Pfandbriefbank posted a profit for the financial year 2011, following its successful restructuring and realignment. Based on preliminary figures, the bank posted € 188 million in pre-tax profit (in accordance with IFRS) for 2011 (2010: € -135 million). With a pre-tax result of 25 million in the fourth quarter, pbb Deutsche Pfandbriefbank has now been profitable for six consecutive quarters. The specialist lender for Real Estate Finance and Public Investment Finance also saw a marked increase in its new business for 2011: including loan extensions of more than 12 months, the volume originated rose to € 8.0 billion (2010: € 4.1 billion), with higher gross margins.

Manuela Better, CEO of pbb Deutsche Pfandbriefbank, commented on the figures: "Following the Group's realignment, we have now brought pbb Deutsche Pfandbriefbank back to the credit and capital markets. The bank is profitable, and is playing an important role in financing the real estate sector as well as public infrastructure in Germany and Europe. We have thus taken the next important step towards becoming an efficient specialist bank that is ready for re-privatisation. We want to continue on this path in 2012."

For 2012, the Management Board generally anticipates favourable business prospects in the bank's two segments of Real Estate Finance and Public Investment Finance. At the same time, the Management Board wants to maintain the bank's existing liquidity buffer. Assuming that the funding markets normalise, pbb Deutsche Pfandbriefbank plans new business volume for 2012 (including loan extensions) up to the volumes originated in the previous year. Given the state of the capital markets environment, however, the bank expects a slower start to new business in 2012. Providing there are no further distortions on the public finance markets on the one hand or any positive effects from lower loan loss provisioning on the other, the Management Board anticipates a clearly positive pre-tax result for 2012, between € 100 million and € 140 million.

New business originated during 2011 (including loan extensions of more than 12 months) included € 6.3 billion in real estate financing and € 1.7 billion in public-sector finance. Maintaining its conservative new business policy, the bank generated higher gross margins in both business segments. The bank predominantly finances projects in Germany, but also in the bank's European core markets.

Besides pbb Deutsche Pfandbriefbank, based on preliminary figures in accordance with IFRS, the DEPFA sub-group was also profitable (pre-tax profit of € 124 million), as thus was the entire HRE Group (pre-tax profit of € 257 million).

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Income Statement of the Deutsche Pfandbriefbank group

The main drivers of the good results were the profitability of the portfolio and the low provisions for losses on loans and advances. The 2011 financial statements 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 FMS Wertmanagement took place towards the end of the third quarter of 2010.

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

- **Operating revenues** amounted to € 526 million (2010: € 652 million). *Net interest income* of € 371 million (2010: € 600 million) was the main contributor. Income from the servicing for FMS Wertmanagement was reflected in the higher *balance of other operating income/expenses* of € 184 million (2010: € 47 million), however costs related to the servicing are reflected in the general administrative expenses. At € 32 million, *net commission income* was also positive (2010: € -10 million). In contrast, *net trading income* was negative, at € 8 million (2010: € 77 million); this figure is attributable in particular to changes in the market value of derivatives.

- The positive development on the real estate markets resulted in a net release of € 12 million in **provisions for losses on loans and advances** in the reporting period (2010: additions of € 443 million). The net additions to individual allowances amounted to € 20 million, and were limited to a small number of real estate financing transactions. As was the case in the previous year, no specific provisions had to be created in relation to public sector financing. Portfolio-based allowances and loan loss provisions of € 23 million were released in the 2011 financial year.

- At € 357 million, **general administrative expenses** were almost in line with the previous year's figure (2010: € 352 million). The figure comprises amongst others costs which incurred in connection with the servicing for FMS Wertmanagement and for the changeover of the IT environment. These costs will no longer be incurred after 2013.

In the **fourth quarter of 2011**, pbb generated a pre-tax profit of € 25 million. Net interest income was burdened by one-off effects, and net trading income was negatively affected by fair-value changes of derivatives.

Total assets of the pbb Deutsche Pfandbriefbank group

Total assets of the pbb Deutsche Pfandbriefbank group in accordance with IFRS amounted to approx. € 109 billion as at 31 December 2011, and were thus € 78 billion lower than the corresponding figure as at 31 December 2010 (€ 187 billion). The decline was mainly attributable to a further reduction of the counter effects which had increased the total assets when positions were transferred to FMS Wertmanagement in October 2010.

Even without the decline in counter effects, the total assets of the pbb Deutsche Pfandbriefbank group also declined as a result of the planned reduction of some portfolios, mainly the public budget finance portfolio and the value portfolio. The decline in total assets, due to the effects mentioned, was compensated to some extent by market-induced effects which increased total assets.

Regulatory capital ratios

As a sub-group of the HRE Group, Deutsche Pfandbriefbank is exempt under the German Banking Act from the obligation to determine capital ratios at the level of the institution. On a pro-forma basis, the bank had a **tier 1 ratio** of 16.2 % (31 Dec 2010: 16.7%) and a **core tier 1 ratio** of 14.2% (31 Dec 2010: 14.5%). To facilitate comparisons, these ratios already include the preliminary profit figure for the respective year.

HRE Group and DEPFA sub-group

The **HRE Group**, which comprises pbb Deutsche Pfandbriefbank and its subsidiaries as well as the DEPFA sub-group, also posted positive results in accordance with IFRS, with a pre-tax profit of € 257 million (2010: € -859 million). The factors contributing to this improvement of results were the same as those described for the Deutsche Pfandbriefbank sub-group above. Specifically, the result was driven by the profitability of the portfolio and the low loan loss provisioning. It thus reflects the successful restructuring and realignment of the strategic core bank Deutsche Pfandbriefbank AG in particular.

The **DEPFA sub-group** posted € 124 million in pre-tax profit according to IFRS for 2011 (2010: € -680 million), primarily due to one-off effects in the first two quarters 2011.

Note to editors:

pbb Deutsche Pfandbriefbank will publish its annual report on 29 March 2012.

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

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Consolidated Income Statement (in accordance with IFRS) of the pbb Deutsche Pfandbriefbank sub-group (€ million)*[1]

	Q4 2010	**FY 2010**	Q1 2011	Q2 2011	Q3 2011	Q4 2011	**FY 2011**
Operating revenues	191	**652**	131	162	129	104	**526**
Net interest income and similar income	109	**600**	97	95	101	78	**371**
Net commission income	10	**-10**	14	5	6	7	**32**
Net trading income	15	**77**	-8	8	4	-12	**-8**
Net income from financial investments	1	**-17**	-1	-	-	4	**3**
Net income from hedge relationships	-4	**-45**	-15	-12	-7	-22	**-56**
Balance of other operating income/expenses	60	**47**	44	66	25	49	**184**
Provisions for losses on loans and advances	25	**443**	-2	1	-1	-10	**-12**
General administrative expenses	76	**352**	81	93	87	96	**357**
Balance of other income/expenses	8	**8**	-	-	-	7	**7**
Pre-tax profit/loss	98	**-135**	52	68	43	25	**188**

Consolidated Income Statement (in accordance with IFRS) of HRE Group (€ million)*[1]

	Q4 2010	**FY 2010*[2]**	Q1 2011	Q2 2011	Q3 2011	Q4 2011	**FY 2011**
Operating revenues	348	**89**	260	177	152	96	**685**
Net interest income and similar income	123	**798**	218	141	114	93	**566**
Net commission income	4	**-319**	8	0	-1	5	**12**
Net trading income	67	**-364**	-7	12	9	-5	**9**
Net income from financial investments	-21	**56**	-20	-15	-2	-13	**-50**
Net income from hedge relationships	7	**-56**	-4	-17	7	-39	**-53**
Balance of other operating income/expenses	168	**-26**	65	56	25	55	201
Provisions for losses on loans and advances	-7	**445**	-9	-11	1	-24	**-43**
General administrative expenses	97	**516**	106	136	115	120	**477**
Balance of other income/expenses	10	**13**	0	1	0	5	**6**
Pre-tax profit/loss	268	**-859**	163	53	36	5	**257**

*[1] Figures for the fourth quarter of 2011 and for the full year 2011 are preliminary.

*[2] 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).