PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE PFANDBRIEFBANK

Press release

Pre-tax profit of € 21 million – pbb continues to be profitable
- Clearly positive results, despite liquidity costs
- New business originated on a selective basis, in a tense capital markets environment

Munich, 22 May 2012 – During the first quarter of 2012, pbb Deutsche Pfandbriefbank generated a pre-tax profit of € 21 million. Results were affected in particular by the costs for maintaining liquidity and a partial reduction of the public sector finance portfolio. Hence, the first-quarter results 2012 fell short of the first quarter 2011 (€ 52 million), which had been positively affected by non-recurring effects, but remained on a comparable level to the fourth quarter of 2011 (€ 25 million). The bank affirmed its guidance for the financial year 2012: a pre-tax profit of € 100 million to € 140 million, with new business volume up to the volumes originated in the previous year – based on the assumption of a reasonable market environment and barring any further distortions on the public sector finance markets.

Manuela Better, CEO of pbb Deutsche Pfandbriefbank said: "The results for the first quarter are in line with our planning. In the current situation, we opted for a conservative liquidity strategy, which has led to lower net interest income and a more cautious approach to originating new business. As part of our risk-oriented portfolio management, we reduced our exposure to some of the countries in focus, and further enhanced the quality of our public-sector cover pool."

On account of the uncertain funding environment, pbb Deutsche Pfandbriefbank entered into new business on a selective basis during the first quarter, originating a total of € 0.8 billion (including extensions beyond one year). Real Estate Finance accounted for € 0.7 billion, and Public Investment Finance for € 0.1 billion. The bank realised markedly higher gross margins in both of its business segments. First-quarter gross margins in Real Estate Finance rose to above 240 basis points (BP; full year 2011: over 205 BP), and to over 140 BP (full year 2011: more than 105 BP) in Public Investment Finance. At the same time, new real estate financings were concluded at lower loan-to-value ratios and, hence, at lower risks.

The details of the **income statement** for the first quarter of 2012 were as follows:

- At € 103 million, **operating revenues** were in line with the previous quarter (Q4 2011: € 104 million). *Net interest income* declined to € 76 million (Q4 2011: € 78 million), reflecting a slightly lower volume of interest-bearing assets (mainly due to the active reduction of the public-finance portfolio, and maturities in that portfolio) as well as the costs for maintaining liquidity. *Net trading income*, which reflects changes in market value, was balanced in Q1/2012 (Q4 2011: € -12 million), whilst *net income from hedge relationships* was now only marginally negative at € -2 million (Q4 2011: € -22 million). The *balance of other operating income/expenses* fell to € 30 million (Q4 2011: € 49 million), one of the factors was the bank levy (€ 7 million).

- **Provisions for losses on loans and advances** were recognised in an amount of € 4 million, resulting from only a few cases that required provisioning. € 10 million in loan loss provisions were released in the fourth quarter of 2011.

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Total assets of the Deutsche Pfandbriefbank sub-group as at 31 March 2012 amounted to € 104 billion, after € 109 billion as at 31 December 2011. The counter effects which initially occurred in relation to the transfer of positions to FMS Wertmanagement in October 2010 were reduced further. Adjusted for these effects, the sub-group's total assets stood at € 99 billion (31 Dec 2011: € 101 billion).

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 first-quarter profit before taxes of € 12 million (Q4 2011: € 5 million) and is also in line with the planned figures. Consolidated total assets of the HRE Group declined from € 237 billion as at 31 December 2011 to € 192 billion as at 31 March 2012.

Pre-tax profit of the DEPFA sub-group was € -8 million in the first quarter of 2012 (Q4 2011: € -30 million). The sub-group conducts no new business and the portfolio is in run off; the focus here is on reducing the portfolio in a value preserving manner.

Note to editors:

We have included tables providing information on the income statement of the Deutsche Pfandbriefbank sub-group (in accordance with IFRS), and on the consolidated income statement of HRE Group.

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

pbb Deutsche Pfandbriefbank sub-group	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**FY 2011**	**Q1 2012**
Operating revenues	131	162	129	104	526	**103**
Net interest income and similar income	97	95	101	78	371	**76**
Net commission income	14	5	6	7	32	**3**
Net trading income	-8	8	4	-12	-8	**0**
Net income from financial investments	-1	0	0	4	3	**-4**
Net income from hedge relationships	-15	-12	-7	-22	-56	**-2**
Balance of other operating income/expenses	44	66	25	49	184	**30**
Provisions for losses on loans and advances	-2	1	-1	-10	-12	**4**
General administrative expenses	81	93	87	96	357	**78**
Balance of other income/expenses	0	0	0	7	7	**0**
Pre-tax profit/loss	52	68	43	25	188	**21**

Consolidated Income Statement (IFRS) of HRE Group (€ million)

Hypo Real Estate Group	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**FY 2011**	**Q1 2012**
Operating revenues	260	177	152	96	685	**112**
Net interest income and similar income	218	141	114	93	566	**90**
Net commission income	8	0	-1	5	12	**-2**
Net trading income	-7	12	9	-5	9	**-14**
Net income from financial investments	-20	-15	-2	-13	-50	**-6**
Net income from hedge relationships	-4	-17	7	-39	-53	**-2**
Balance of other operating income/expenses	65	56	25	55	201	**46**
Provisions for losses on loans and advances	-9	-11	1	-24	-43	**2**
General administrative expenses	106	136	115	120	477	**98**
Balance of other income/expenses	0	1	0	5	6	**0**
Pre-tax profit/loss	163	53	36	5	257	**12**