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Press Release

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pbb Deutsche Pfandbriefbank plans flotation

- Successful positioning on the credit and capital markets provides a good basis for listing
- Minimum placement of 75.1% of shares envisaged
- Federal Republic of Germany will retain an indirect stake of at least 20%, for two years

Munich, 10 June 2015 – Deutsche Pfandbriefbank AG (pbb), a leading European specialist bank for commercial real estate finance and public investment finance, plans a listing in the Prime Standard segment of the Frankfurt Stock Exchange (FWB). Subject to market conditions, the IPO is scheduled to take place during July 2015. The bank's sole shareholder, Hypo Real Estate Holding AG (HRE) will not pursue the alternative sale of pbb via a tender process for the time being. The decision for pbb's planned flotation was taken on the basis of resolutions passed by the respective executive bodies of HRE and pbb and with the approval of the German Financial Markets Stabilisation Agency (FMSA) as well as the Interministerial Steering Committee. The Interministerial Steering Committee adopts material decisions concerning the measures taken by the German Financial Markets Stabilisation Fund (FMS) - HRE's owner - which is managed by FMSA.

Within the scope of the planned IPO, a minimum stake of 75.1% of the share capital is planned to be placed, with the Federal Republic of Germany – indirectly via HRE - holding a minimum 20% stake in pbb (via HRE) for a two-year period based on a respective lock up commitment. pbb will redeem FMS's € 1 billion silent participation within the framework of the IPO.

Dr Günter Bräunig, Chairman of the Supervisory Boards of HRE and pbb, said : "pbb has been realigned, and its management team has successfully positioned the bank on the lending and funding markets. Today it is flotation-ready in every possible way."

Andreas Arndt, pbb's Co-CEO and CFO, added: "Investors benefit from pbb's sustainable business model, in a growing market, and from an attractive risk/return profile. We have a high-quality portfolio and very strict risk management. We refinance our lending business on a matched-maturity basis to the greatest extent possible, and pbb's capitalisation is very good indeed. We will adhere to this conservative approach, and we are determined to enhance profitability through attractive new business."

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Thomas Köntgen, Co-CEO and Treasurer of pbb, said: "Our strength lies in the high degree of penetration we have achieved in our strategic markets. In our European core markets, we offer our clients a strong local presence and expertise covering all functions of the financing process chain, combined with a cross-border approach. Thanks to our structuring expertise, and through cooperation with financing partners, we are in a position to also realise complex financings."

Strong market position and good operating performance

With new business originated in 2014 of € 10.2 billion (including extensions by more than one year) and a financing portfolio in its strategic business segments in a nominal amount of € 28.4 billion, pbb ranks amongst the leading European specialist banks for commercial real estate finance and public investment finance. With new business volume of € 2.8 billion originated during the first quarter of 2015, pbb recorded the best first quarter since its re-launch in 2009. The bank's strategic credit portfolio had increased to more than € 30 billion by the end of the first quarter. With aggregate issues outstanding of € 36 billion (nominal) at the end of 2014, pbb was the biggest Pfandbrief issuer by far, ranking amongst the largest covered bond issuers in Europe.

pbb has produced a very positive operating performance during recent years: since 2012, net interest income – the bank's most important source of income – rose from € 296 million to € 421 million in 2014. Costs decreased from € 341 million to € 251 million during the same period. Pre-tax profit rose from € 124 million in 2012 to €174 million in 2014 (2014 results exclude negative one-off effects related to HETA Asset Resolution AG). This positive trend prevailed for all three key indicators during the first quarter of the current year.

HRE has mandated Citigroup Global Markets Limited and Deutsche Bank AG as Joint Global Coordinators and Joint Bookrunners for pbb's flotation. JP Morgan Securities plc, Commerzbank AG and Joh. Berenberg, Gossler & Co. KG will act as Joint Bookrunners.

Note to editors:

Please refer to the appendix to this press release for more detailed information about pbb Deutsche Pfandbriefbank.

Moreover, information about the flotation and pbb's key financial indicators is available on the pbb website: pfandbriefbank.com**.**

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Any offer will be made exclusively through and on the basis of a prospectus published in Germany, as supplemented by additional information related to the offer outside of Germany.

No money, securities, or other consideration is being solicited, and, if sent in response to the information contained herein, will not be accepted.

This press release contains forward-looking statements. These statements are based on the current views, expectations, assumptions and information of the management of Deutsche Pfandbriefbank AG. Forward-looking statements shall not be construed as a promise for the materialization of future results and developments and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those described in such statements due to, among other things, changes in the general economic and competitive environment, risks associated with capital markets, currency exchange rate fluctuations, changes in international and national laws and regulations, in particular with respect to tax laws and regulations, affecting Deutsche Pfandbriefbank AG, and other factors. The Company does not assume any obligations to update any forward-looking statements.

Annex – Further information on pbb Deutsche Pfandbriefbank

Business Overview

pbb Group's core business is commercial real estate finance (REF), and public investment finance (PIF"), where it funds public sector investments such as infrastructure projects and provides government-backed export finance. pbb Group believes it is one of the leading specialist banks in Europe for REF and PIF with a strong local presence and expertise across the entire financing process in these segments in its core European markets Germany, the United Kingdom and France. pbb Group is also active in the Nordic countries (particularly Sweden), in selected countries in Central and Eastern Europe (particularly Poland, the Czech Republic, Slovakia and Hungary), Spain, the Benelux and other European countries. pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it operates at the date of the Prospectus.

In its REF segment, pbb Group concentrates generally on medium to large financing transactions of €10 million to €120 million per ticket (final hold (i.e. the tranche of the loan pbb Group holds on its own books)), and in select cases also with higher transaction sizes, for professional real estate investors, with a focus on office, retail/shopping, residential, logistics/warehousing and hotel properties. According to its own assessment, data and information from the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken)*, and public company reports of competitors, pbb Group was the third largest REF lender in Germany and among the most active REF lenders in Europe in 2013 and 2014, in each case measured by new business volume. In its PIF segment, pbb Group finances public sector investments in areas such as facilities for municipalities, infrastructure projects and government-backed export. In both segments, pbb Group provides finance either as a sole lender or together with financing partners including other banks (in syndications), insurers and private equity investors. pbb Group also sells derivatives to hedge market risks (mainly interest rate risks and less frequently conversion risks) in conjunction with its lending activities.

In addition to its REF- and PIF-related activities, pbb Group has a non-strategic value portfolio (VP), which mainly includes certain public budget finance assets (i.e. general budget finance, which are non-investment based financings mainly in the form of bonds and promissory notes), as well as certain real estate and public finance assets (including Italian assets that were transferred from its PIF portfolio as of January 1, 2015 following the closure of the Rome branch). The VP has been in run-down for several years. pbb Group also has a consolidation and adjustments segment (C&A) which primarily consists of treasury activities and pbb Group's equity investments.

pbb Group's lending activities are primarily refinanced through the Pfandbrief market, supplemented by senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others. pbb Group aims to match the maturities of its funding instruments with the financing granted within its lending activities. In recent financial years, pbb Group's REF business has generated stable returns, and pbb Group expects a positive profit contribution from its REF and PIF business lines in the future. pbb Group plans to structurally improve its profitability in the short to medium term by reallocating capital released through the run-down of its VP segment to business in its strategic REF and PIF segments.

pbb Group pursues a conservative and integrated risk management approach tailored to its REF, PIF, VP and C&A segments. Since the financial crisis, and following a significant portfolio transfer to FMS Wertmanagement, a special public-law liquidation agency (*Abwicklungsanstalt*), pbb Group has considerably reduced its legacy assets. pbb Group (as part of the group headed by Hypo Real Estate Holding AG, Munich successfully passed the latest asset quality review and stress tests of the European Central Bank (ECB) carried out on the level, and in consideration of (additional) capital positions, of HRE and its subsidiaries (HRE Group).

As of March 31, 2015, pbb Group had 842 employees operating in ten locations in six countries (Germany, the United Kingdom, France, Spain, Sweden and Japan), the vast majority of which were located in Germany.

Competitive Strengths

pbb Group believes that its business is characterized by the following competitive strengths:

- A leading specialist in European REF and PIF with a stable and sustainable business model

  pbb Group pursues a profitable, stable and sustainable business model based on a two-segment strategy with its REF and PIF activities. The two business lines complement each other as they enable the efficient use of regulatory and economic capital (concerning Common Equity Tier 1 (CET 1) and leverage considerations). Combining REF and PIF leads to capital synergies as REF is constrained by the capital, risk coverage and leverage ratio requirements contained in the Basel Committee on Banking Supervision framework (also Basel 3), PIF is more affected by leverage and economic capital considerations. The two segment strategy also diversifies pbb Group's earnings, with the potential to generate a steady stream of income and strengthen pbb Group's resilience to business cycles. Furthermore, it enables pbb Group to benefit from economies of scale (in its Pfandbrief funding, IT and central functions) and economies of scope, with the public sector being a major user and provider of real estate (which creates asset overlaps, client commonality and access to public sector's real estate pools).

Measured by new business volume in 2013 and 2014 (based on commitments), pbb Group was among the most active REF and PIF lenders in Germany and Europe (according to its own assessment). pbb Group believes it is one of the few finance providers in Europe with experience in both REF and PIF, and a strong European origination platform with presence and expertise in European core and other strategic markets. pbb Group also benefits from established and reliable client relationships with major players and a proven track record in accessing the secondary market. As a result, pbb Group believes it is well-positioned to benefit from the expected growth of European REF and PIF volumes.

- Strong European presence, local know-how and broad in-house expertise across the entire financing process

pbb Group considers itself to be one of the few European finance providers with know-how, experience and client relationship in both REF and PIF areas. It sees its particular competitive strengths in its broad asset class coverage, structuring competency, project know-how and distribution capacity leveraging its strong European origination platform with product and sectorial expertise in its strategic European markets.

With a significant "on-the-ground" presence through its nine offices across Europe with highly experienced and skilled teams, pbb Group has in-depth local expertise in its strategic markets where it operates its REF and PIF business. pbb Group's strong European presence, which (combined with strong client relationships) ensures a continuously high market penetration, is resourced with experienced in-house originators, underwriters and property analysts. This strong franchise enables pbb Group to cater to sophisticated investors across the entire financing process. The in-house expertise also means pbb Group can provide tailored solutions for complex, high-value and multi-jurisdictional transactions. Through well-defined and unified processes and standards, the early involvement of the risk functions and property analysis teams in new projects, pbb Group is able to provide clients timely responses and high deliverability.

- Track-record of generating profitable new business thereby increasing overall group profitability

pbb Group has a track-record of generating profits in its REF and PIF business lines. Its average gross margins in new REF business were in a range of >225 basis points per year in 2012 and >200 basis points per year in 2014. Its new business in the PIF segment achieved average gross margins in a range of >140 and >75 basis points per year during the same period. The adjusted return on equity (RoE) before taxes (based on average monthly IFRS equity excluding revaluation reserve, excluding the silent participation with a nominal value of €1.0 billion held by SoFFin in pbb Group's REF business amounted to 55.8% in the first quarter of the financial year 2015, 20.0% in the financial year 2014 and 40.0% in the financial year 2013 (including one-off effects resulting from the sale of a restructured property). The adjusted RoE before taxes (based on average monthly IFRS equity excluding revaluation reserve, excluding the SoFFin Silent Participation) in pbb Group's PIF business was 13.7% in the first quarter of the financial year 2015 and 1.2% in the financial year 2014 (<0% in the financial year 2013).

pbb Group's run-down of the VP is expected to have a positive impact on pbb Group's gross margins, subject to corresponding business opportunities. The VP has a relatively low gross margin (average in the financial year 2014: <10 basis points), which is likely to turn negative in the near future and which requires a relatively high amount of regulatory capital on the basis of its risk weighted assets (RWA). The VP's run-down relieves capital, which can be used for the potential origination of assets in the higher-margin REF and PIF segments without requiring additional regulatory capital. pbb Group also aims to reduce downside risks of the VP in a value-conserving manner through selective sales, restructuring or early redemptions.

- Front-to-back integrated risk management and conservative underwriting framework leading to sustained strong asset quality

  Close client relationship, early senior management involvement in the entire underwriting process (including the ability to make swift business decisions) and diligent portfolio management provide pbb Group with an efficient risk management framework.

  pbb Group has a highly selective underwriting process and framework based on a tight review of internal expected loss class ratings, collateral assessments, conservative loan to value (LTV) ratios of 64% in REF (average LTV for new REF commitments in the financial year 2014) and diversified assets (geographical spread and asset classes). pbb Group's Property Analysis and Valuation division oversees the entire new and existing business processes, delivers guidance on property-related risk and manages the property valuation process. This approach has led to a strong asset quality. Based on internal rating models as of December 31, 2014, pbb Group assigned EL (expected loss) classes of 1 to 8 to 90% of its REF portfolio, to almost 100% of its PIF portfolio and to 99% of its VP. According to its internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to AAA+ to BBB- ratings and thus to an investment grade rating. In its REF portfolio, there were only 58 problem loans (counting only loans with a nominal amount in excess of €75,000) with an exposure at default (calculated for 2013 based on revised Basel 3 rules (simulation) and for 2014 and later based on Basel 3) of €827 million as of December 31, 2014, which translates into a problem loans ratio of 3.4% (1.8% excluding the two largest exposures). The selective underwriting process and asset analysis is supported by a "state-of-the-art" IT infrastructure introduced in 2013, which supports the analysis of existing exposures and the pricing of risk through in-house information sharing.

pbb Group (as part of the HRE Group) has demonstrated its resilience and good asset quality in the ECB's AQR (asset quality review) and stress tests in 2014 with capital ratios satisfying those required in 2016. The ECB's AQR and stress tests have been conducted on the level, and in consideration of (additional) capital positions, of HRE and the HRE Group and its results were published in October 2014.

- Adequate liquidity buffers and stable, diversified funding base with the Pfandbrief as the major funding instrument

  pbb Group maintains a conservative balance sheet with a diversified funding profile. The Pfandbrief, pbb Group's primary funding instrument, is a relatively inexpensive source of funding with low spreads. pbb Group has a well-established presence in the capital markets as the largest Pfandbrief issuer in Germany as of March 31, 2015 based on outstanding volume (€36 billion as of March 31, 2015) . The funding through Pfandbriefe is supplemented with senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others.

  As of March 31, 2015, pbb Group had liquidity buffers with a liquidity coverage ratio (LCR) of over 200% and a net stable funding ratio (NSFR) of over 100% (in both cases, based on the currently applicable Capital Requirements Regulation (CRR) rules; the delegated regulation on the liquidity coverage requirement as adopted by the European Commission on October 10, 2014 has been taken into account for the calculation of the LCR).

Strategy

The key strategic objectives for pbb Group are:

- Specialist provider of structured finance for commercial real estate and public investments with a clear focus

  pbb Group will continue to concentrate on professional national and international real estate investors as well as public and publicly-backed clients and public private partnerships (PPP). Its core products will remain Pfandbrief-eligible investment finance, low risk development finance and Export Credit Agency (ECA) guaranteed export finance with a ticket size of €10 million to €120 million. In select cases, the Company underwrites financings also with higher ticket sizes. In particular, syndication will be used to arrange larger deals. pbb Group will also continue to concentrate on financing office, retail/shopping, residential and logistics/warehousing assets with a conservative LTV in its REF business and on infrastructure, municipal facilities, health and elderly care, and utility assets in its PIF business.

- Capitalize on strong foothold in its core and other strategic European markets, particularly Germany

  pbb Group intends to remain focused on its core and other strategic European markets, in particular Germany, France, the United Kingdom, Central and Eastern Europe and the Nordic countries for REF, and Germany and France as well as Spain, the Nordic countries and the United Kingdom for PIF. pbb Group has recently established new offices in Berlin, Düsseldorf, Hamburg and Stockholm and hired further originators and underwriters in Germany, the United Kingdom and France. The sales offices also host dedicated local sales, credit, legal, market and property experts which are involved in the credit process from day one. This will enable pbb Group to leverage its origination capabilities and local market knowledge to effectively compete in its core markets. At the same time, pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it currently already operates.

- Increase overall group profitability

  pbb Group will continue to concentrate on the bottom-line and attractive profitable new business, instead of pursuing market share driven credit underwriting. It intends to increase the volume of screened new business opportunities to choose among the most profitable ones albeit on the basis of its conservative underwriting framework. pbb Group does not pursue a market share driven policy. Its underwriting process will remain highly selective with a stringent review and asset analysis and a strict focus on profit hurdle rates.

  pbb Group aims to use capital relieved from the run-down of the low-yielding VP (stock margin of <10 basis points in 2014) and invest it in higher-yielding new REF and PIF business, thereby improving the overall portfolio's gross margins. The financial volume of the VP has a contractual run-down (i.e. on the basis of contractual maturities and scheduled repayments, with zero-coupon bonds being taken into account with their nominal value at maturity and without considering arrears) of 42% between 2014 and the end of 2019 (including the Italian assets transferred to the VP effective January 1, 2015) which translates into a reduction in the VP's RWA consumption by 56% (including the Italian assets). pbb Group will explore possibilities to accelerate the VP run-down before contractual asset maturities, subject to the effect such an accelerated run-down could have on the pbb Group as a whole, in particular with regards to the impact on funding, capital and profit and loss.

  pbb Group intends to further improve its profitability by optimizing its sales productivity and improving its cost income ratio (CIR) after the successful completion of its operational restructuring, targeting a mid-term CIR of <45% (from 57% for the financial year 2014, adjusted for €120 million effects from value adjustments on the HETA Asset Resolution AG exposure). To this end, pbb Group will also leverage its modern banking platform which is based on a "state-of-the-art" IT infrastructure with no legacies. The banking platform can be scaled – as required and without material cost increases – for additional business volumes across geographies, further clients and products. Further cost savings potential of €30 million have been identified for 2015 due to the termination of certain servicing obligations and the optimization of the IT outsourcing agreement.

As a result, pbb Group is targeting high single-digit post-tax RoE on a group level in the medium term.

- Maintain diversified refinancing strategy centered on the Pfandbrief and well-matched asset liability management profile

  By offering high security to creditors, the Pfandbrief attracts a liquid investor base providing favorable refinancing conditions to pbb Group, the Pfandbrief will remain pbb Group's instrument of choice for the majority of its funding needs, including benchmark issues and private placements. In addition, senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others, will be used to complement the Pfandbrief. pbb Group aims to maintain its funding flexibility and diversification with a retail deposit base focusing on term deposits. pbb Group aims to leverage its position as established capital markets issuer with the objective to preserve a stable and diversified funding base.

  When raising funds, pbb Group pursues a well matched asset liability management profile.

- Aim for sustainable regular dividend payments

  pbb Group aims to leverage its strong earnings generation, adequate capitalization well above regulatory requirements and reserves distributable pursuant to German GAAP as a basis for steady and constant dividend payments as capital position, returns, reserves and regulatory requirements permit. Subject to regulatory changes and restrictions, pbb Group is targeting a mid-term CET 1 ratio (fully loaded, i.e. calculated on the basis of the rules applicable upon the expiry of the grandfathering under the transitional rules of the CRR) of more than 12.5%, a Tier 1 capital ratio (fully loaded) of more than 16%, a total capital ratio (fully loaded) of between 16 and 18%, and a leverage ratio (fully loaded) of more than 3.5% to support these dividend payments. pbb Group intends to supplement the regular dividends with special dividends when excess capital (e.g. from the run-down of the VP) cannot be attractively deployed.

  Following the re-privatization (including the repayment of the SoFFin Silent Participation), the corresponding restrictions under the EU state aid decision (C 15/09 (ex N 196/2009) dated July 18, 2011, published in the Official Journal of the European Union on March 1, 2012) preventing pbb Group from paying dividends will cease to apply.