PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

Press release

DEUTSCHE PFANDBRIEFBANK

pbb Deutsche Pfandbriefbank remains on course in 2012

- Pre-tax profit of € 124 million
- New business rises to € 2.7 billion for the fourth quarter of 2012, and to € 5.6 billion for the full year
- Funding volume of € 6.5 billion demonstrates investor confidence
- Manuela Better: "pbb showed its origination strength during the second half of the year"
- Deposit-taking business launched to broaden the funding base

Munich, 7 March 2013 – On Thursday, pbb Deutsche Pfandbriefbank reported positive results for the 2012 financial year. According to preliminary and unaudited figures, pbb achieved pre-tax profit of € 124 million. pbb is well within its guidance which, at the time, took into account several factors which had either positively affected results for 2011 – or which would burden performance during 2012. Including extensions for more than one year the bank originated new business totalling € 5.6 billion. Following a slow start into the year as a result of the market environment, new business accelerated during the second half, and performed particularly strongly during the fourth quarter (€ 2.7 billion). With an aggregate funding volume of € 6.5 billion, the bank also exceeded its funding targets. Thursday this week, pbb launched its retail deposit-taking business via the pbbdirekt.com online portal to broaden its funding base.

Manuela Better, CEO of pbb Deutsche Pfandbriefbank, said: "pbb Deutsche Pfandbriefbank can look back on a successful year in 2012. We generated very high funding volumes, and proved our origination strength especially during the second half of the year."

At € 4.9 billion, commercial real estate finance accounted for the lion's share of **new business**, with the remaining € 0.7 billion in public investment finance. New business clearly picked up momentum during the course of the year. At the beginning of 2012, pbb had adopted a cautious stance in its origination activities, given the prevailing uncertainty on funding markets. New business volume totalled € 1.5 billion during the first two quarters; it doubled, on a quarterly basis, to € 1.4 billion in the third and once again to € 2.7 billion in the fourth quarter of the year. The average LTV for new real estate financings dropped markedly, to 56 per cent (2011: 65 per cent).

Aggregate new long-term **funding volume** amounted to € 6.5 billion. Of the aggregate amount, Pfandbrief issues (with an average maturity of 7.5 years) accounted for € 4.2 billion, with another € 2.3 billion placed in promissory notes and bearer bonds (with an average maturity of 4.5 years). The volume and terms of the securities placed show the confidence investors have placed in pbb as a borrower, beyond the planned date for re-privatisation. The bank was regularly active as an issuer, with continuously narrowing spreads over the course of the year. To broaden its funding base, pbb launched the retail deposit-taking business on Thursday: through its pbbdirekt.com online platform, the bank offers term deposits with maturities between six months and three years, as well as overnight deposits.

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For the 2013 financial year, pbb envisages a **marked increase in new business volumes** (including extensions beyond one year) compared to 2012.

Looking at results of operations for 2013, the bank expects significantly higher net interest income; results would be strengthened if once again, no significant provision for losses on loans and advances were necessary. Whilst other operating income will diminish upon the termination of the servicing function for FMS Wertmanagement's portfolio, pbb will also significantly reduce its general administrative expenses. Considering all these factors, pbb Deutsche Pfandbriefbank anticipates achieving a **pre-tax profit** for 2013 **once again in excess of € 100 million**. Effects from the valuation of financial instruments are hard to predict: during 2013, the entire financial services sector will change its approach to the valuation of derivatives, in line with the requirements set by external auditors. Depending on market developments, the potential impact of this change may have a significant impact on the results of pbb Deutsche Pfandbriefbank, with any offsetting effects only occurring during subsequent years.

Income statement (IFRS) for the 2012 financial year

The details of pbb's preliminary, unaudited consolidated financial statements in accordance with IFRS are shown below.

Income from the lending business is recognised in net interest income and net commission income. At € 296 million (2011: € 371 million), **net interest income** remained the key source of income.

- Interest-bearing assets on average declined over the previous year. However, the factors contributing to the decline included risk-reducing measures: for instance, pbb reduced exposures in Italy and Portugal in a targeted manner – some of these exposures had high interest rates.

- The higher margins generated on new business – compared to existing exposures – had a positive effect.

- Net interest income was burdened by higher liquidity reserves. Moreover, lower market interest rates resulted in lower interest income from own funds and liquidity reserves.

- In 2011, net interest income benefited from higher one-off effects of € 26 million, due in particular to the buy-back of debt instruments, which did not occur to this extend during the period under review.

Net commission income totalled € 23 million (2011: € 32 million). The bank generates commissions, for example, in the form of syndication and other fees.

This income from the lending business is offset by **provisions for losses on loans and advances**. Thanks to the improved financial circumstances of individual loans, and the successful restructuring of exposures, the bank released a net € 4 million in provisions for losses on loans and advances (in 2011, provisions were released in an amount of € 12 million). Only few individual exposures saw material changes in provisions for losses on loans and advances.

pbb Deutsche Pfandbriefbank reduced **general administrative expenses** by € 16 million, to € 341 million (2011: € 357 million). Non-personnel expenses fell to € 210 million (2011: € 228 million), due in particular to lower IT expenses resulting from the successful conclusion of a multi-year consolidation project. At € 131 million, personnel expenses remained virtually unchanged (2011: € 129 million).

The **balance of operating income and expenses** amounted to € 131 million (2011: € 184 million). This balance includes € 106 million income from the servicing for FMS Wertmanagement (2011: € 109 million). This income item was offset by general administrative expenses of virtually the same amount. The bank generated € 40 million (2011: € 35 million) in net income from IT services provided to the affiliated DEPFA Group. In addition, expenses for the current bank levy and related back payments rose to € 24 million (2011: € 2 million).

The **balance of other income and expenses** of € -6 million (2011: € 7 million) mainly reflected changes to restructuring provisions required for pbb's realignment.

Net trading income, net income from financial investments and net income from hedge relationships are subject to effects from the market valuations of financial instruments. These effects – which developed favourably during the period under review – are largely driven by changes in market values. **Net trading income** swung from an € -8 million loss in 2011 to a € 10 million profit in 2012. **Net income from financial investments** increased to € 13 million (2011: € 3 million), **net income from hedge relationships** improved significantly, to € -6 million (2011: € -56 million).

Total assets

Consolidated total assets of the pbb Group as at 31 December 2012 amounted to € 97 billion, down 11% from the previous year's level (31 December 2011: € 109 billion). The decline was mainly attributable to the reduction in counter effects which occurred in relation to the transfer of positions to FMS Wertmanagement, and which have now been almost fully reversed. Independent from these effects, total assets declined due to the reduction of certain portfolios, in line with strategy, for example in public-sector budget finance.

Regulatory capital ratios

Capital ratios – which were calculated on a pro-forma basis pursuant to section 2a of the German Banking Act – improved: the tier 1 ratio was 18.1% (31 December 2011: 16.3%) and the core tier 1 ratio 15.8% (31 December 2011: 14.2%), particularly as a consequence of the reduction in risk-weighted assets, from € 17.0 billion to € 15.3 billion. The bank's tier 1 capital – excluding the results for 2012 – remained stable, at € 2.8 billion.

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

	Q4 2011	FY 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Operating revenues	104	**526**	103	120	130	114	**467**
Net interest income and similar income	78	**371**	76	74	72	74	**296**
Net fee and commission income	7	**32**	3	3	14	3	**23**
Net trading income	-12	**-8**	0	-2	1	11	**10**
Net income from financial investments	4	**3**	-4	9	6	2	**13**
Net income from hedge relationships	-22	**-56**	-2	-1	3	-6	**-6**
Balance of other operating income/expenses	49	**184**	30	37	34	30	**131**
Provisions for losses on loans and advances	10	**12**	-4	-5	7	6	**4**
General administrative expenses	-96	**-357**	-78	-86	-89	-88	**-341**
Balance of other income/expenses	7	**7**	0	1	1	-8	**-6**
Pre-tax profit/loss	25	**188**	21	30	49	24	**124**