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PFANDBRIEFBANK

# Press release

**pbb Deutsche Pfandbriefbank posts strong gains in terms of profit and new business**

- Pre-tax profit rises from € 124 million to € 165 million
- Strong growth in new business, up 46% to € 8.2 billion
- Long-term funding rises to € 7.7 billion (2012: € 6.5 million)
- Manuela Better: Earning power as well as strengths on the lending and funding markets demonstrated

**Munich, 10 March 2014** – pbb Deutsche Pfandbriefbank significantly improved its performance during the 2013 financial year, clearly exceeding its targets for profit and new business. According to preliminary, unaudited figures (in accordance with IFRS), the specialist bank for real estate finance and public investment finance increased pre-tax profit by one-third, to € 165 million (2012: € 124 million). Amongst other factors, the bank benefited from positive one-off effects during 2013. New business was up by 46%, to € 8.2 billion (2012: € 5.6 billion). For the year 2014, pbb Deutsche Pfandbriefbank expects another marked increase in new business volume, compared to 2013, and pre-tax profit in excess of € 140 million.

**Manuela Better**, CEO of pbb Deutsche Pfandbriefbank, commented on the results: "pbb Deutsche Pfandbriefbank demonstrated its earning power as well as its strength on the lending and funding markets throughout 2013. This is a foundation we will build on, focusing on pbb's medium- and long-term profitability and paving the way for its re-privatisation."

Real Estate Finance accounted for € 7 billion (2012: € 4.9 billion) of aggregate **new business** (including extensions beyond one year); € 1.2 billion (2012: € 0.7 billion) was originated in Public Investment Finance. As in the previous year, Germany was the most important market in the real estate finance business, with its share rising from 32% to 53%. The United Kingdom came second, with an unchanged share of 17% of new business, followed by Central and Eastern Europe (14%) in third place and France, which accounted for 9% of new business. With a slight increase in the average loan-to-value ratio for new commitments to 61% (2012: 56%), the risk/return profile remained at an attractive level. In its second business division, Public Investment Finance, the bank posted an even stronger growth rate in new business, which was up by more than 70% year-on-year. In this segment, more than half of newly-originated loans were granted in France, with around 40% in Germany and 10% in the Nordic region.

pbb was also successful on the funding markets: new long-term **funding** during the period under review rose to € 7.7 billion (2012: € 6.5 billion). Of the aggregate amount, Pfandbrief issues (with an average maturity of 6.9 years) accounted for € 4.5 billion (2012: € 4.2 billion), with another € 3.2 billion (2012: € 2.3 billion) placed in unsecured funding (promissory notes and bearer bonds with an average maturity of 5.2 years). Furthermore, pbb broadened its unsecured funding base by launching the online platform pbbdirekt.com, which offers overnight and term deposits to private investors. More than € 1 billion has been placed with pbb direkt since the platform's launch in early March 2013.

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**Income statement (in accordance with IFRS) for the 2013 financial year**

**Net interest income** of € 319 million clearly exceeded the previous year's figure of € 296 million. New business was a key driver of this increase: the nominal volume of new business originated in the strategic business segments of Real Estate Finance and Public Investment Finance offset repayments, and the average margin earned on new business exceeded the figure for the existing portfolio. Early repayments of receivables and early redemptions of liabilities had a positive effect totalling € 27 million during the period under review (2012: € 17 million). However, low interest rate levels – which once again dropped during 2013 – resulted in lower interest income from own funds and liquidity reserves. **Net commission income** totalled € 9 million (2012: € 23 million). One of pbb's sources of commission income are fees chargeable upon termination of transactions.

This income from the bank's business activities is offset by **provisions for losses on loans and advances**. At € 8 million, additions to provisions for losses on loans and advances were higher than in the previous year (2012: release of € 4 million), but remained low overall.

pbb Deutsche Pfandbriefbank reduced **general administrative expenses** by € 29 million, to € 312 million (2012: € 341 million). This shows that the restructuring measures of the past few years have come to fruition. For instance, personnel expenses were reduced by € 10 million during the period under review, to € 121 million (2012: € 131million). This decline was attributable, in particular, to the transfer of staff to FMS Wertmanagement's service company which took place at the beginning of the fourth quarter. Against this background, the bank expects another marked decline in personnel expenses in the current financial year. Non-personnel expenses were down to € 191 million (2012: € 210 million), mainly due to lower advisory and IT expenses.

The **balance of other operating income/expenses** decreased to € 100 million during the 2013 financial year (2012: € 131 million), mainly due to the termination of servicing for FMS Wertmanagement. The bank generated income of € 60 million from these services in 2013 – the year before, the figure was € 106 million. The bank generated € 36 million (2012: € 40 million) in net income from IT services provided to DEPFA. The bank levy weighed on the balance of other operating income/expenses in an amount of € 11 million; expenses of € 24 million for the previous year included back payments.

Net trading income, net income from financial investments and net income from hedge relationships are usually subject to effects from the valuation of financial instruments in particular. **Net trading income**, which fell to a deficit of € 51 million in 2013 (2012: income of € 10 million), was impacted by one-off effects totalling € -55 million from the conversion to overnight interest rate curves as well as the termination of derivatives contracts. At € 92 million, income from the sale of a successfully restructured property accounted for the lion's share of **net income from financial investments**, which amounted to € 96 million (2012: € 13 million). **Net income from hedge relationships** (hedge accounting) improved to € 9 million in the year under review (2012: € -6 million). The net figure was largely due to hedge inefficiencies.

**Total assets (in accordance with IFRS)**

Consolidated total assets (in accordance with IFRS) amounted to € 74 billion as at 31 December 2013 – down 23% year-on-year (31 December 2012: € 97 billion). The reduction was attributable to various factors.

- Within the framework of the transfer of assets to FMS Wertmanagement in October 2010, real estate loans included in pbb's Pfandbrief cover pool were transferred synthetically. The conversion of this sub-participation *(hinkende Unterbeteiligung)* into an ordinary participation led to a € 6.4 billion reduction in total assets (book value 31 December 2012: € 7.5 billion).

  The remaining effects arising from the transfer of assets to FMS Wertmanagement were reduced further during the 2013 financial year, and are only of minor importance now. For instance, the balance of positive market values of back-to-back derivatives was reduced through novations, to € 18 million (2012: € 1.0 billion). Following maturities, the pbb Group no longer holds any securities issued by FMS Wertmanagement (31. December 2012: € 2.2 billion).

- Furthermore, the non-strategic public-sector budget finance portfolio was reduced by a further € 4.9 billion, as planned, to € 22.8 billion (31 December 2012: € 27.7 billion).

- Finally, pbb participated in the three-year repos offered by the ECB in December 2011 and February 2012, in an aggregate volume of € 4 billion. The bank repaid these funds at the earliest possible date, in January and February 2013, respectively.

**Regulatory capital ratios**
**(in accordance with Basel II and the German Solvency Regulation)**

The bank's capital ratios – calculated on a pro-forma basis – improved during the period under review: the tier 1 ratio stood at 20.3% (31 December 2012: 18.9%), and the core tier 1 ratio was 17.8% (31 December 2012: 16.6%), particularly as a consequence of the reduction in risk-weighted assets, from € 15.3 billion to € 14.2 billion. The Group's own funds were stable, at € 2.9 billion; this figure does not, however, include net income for 2013.

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

| | Q4 2012 | FY 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | FY 2013 |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Operating revenues | 114 | **467** | 101 | 113 | 155 | 113 | **482** |
| Net interest income and similar income | 74 | **296** | 79 | 74 | 79 | 87 | **319** |
| Net commission income | 3 | **23** | 1 | 1 | 3 | 4 | **9** |
| Net trading income | 11 | **10** | -12 | 10 | -51 | 2 | **-51** |
| Net income from financial investments | 2 | **13** | 1 | 0 | 97 | -2 | **96** |
| Net income from hedge relationships | -6 | **-6** | 0 | 4 | 3 | 2 | **9** |
| Balance of other operating income/expenses | 30 | **131** | 32 | 24 | 24 | 20 | **100** |
| Provisions for losses on loans and advances | 6 | **4** | 4 | -3 | -9 | 0 | **-8** |
| General administrative expenses | -88 | **-341** | -76 | -80 | -84 | -72 | **-312** |
| Balance of other income/expenses | -8 | **-6** | 0 | 1 | 0 | 2 | **3** |
| Pre-tax profit/loss | 24 | **124** | 29 | 31 | 62 | 43 | **165** |