

15th German Corporate Conference

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PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK

pbb Deutsche Pfandbriefbank

Post IPO: Conservative Business and Risk Strategy to Continue

Andreas Arndt, Co-CEO/CFO

Frankfurt, 20 January 2016

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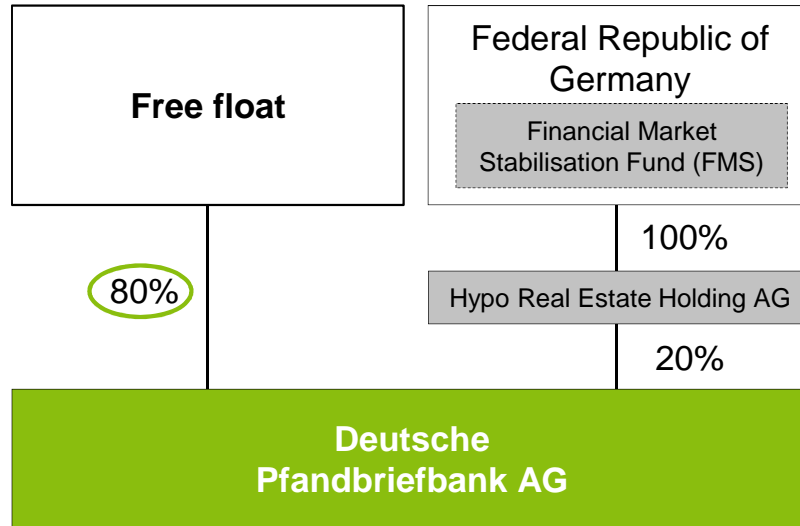


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- 1 Successfully positioned and reprivatised – positive operating track record**
- 2 A leading Commercial Real Estate Finance (REF) and Public Investment Finance (PIF) specialist with a high profile franchise**
- 3 Continued capital reallocation from Value Portfolio to core business and increase of syndication/placement activities to counter margin compression**
- 4 Sustained high portfolio quality – conservative risk strategy with fully integrated risk management culture and stringent front-to-back risk management processes**
- 5 Stable and diversified funding base – German Pfandbrief as main funding instrument**
- 6 Solid capitalisation – strong capital ratios provide buffer for potential regulatory changes and strategic business growth and allow for an attractive dividend policy**

1 Successfully positioned and reprivatized

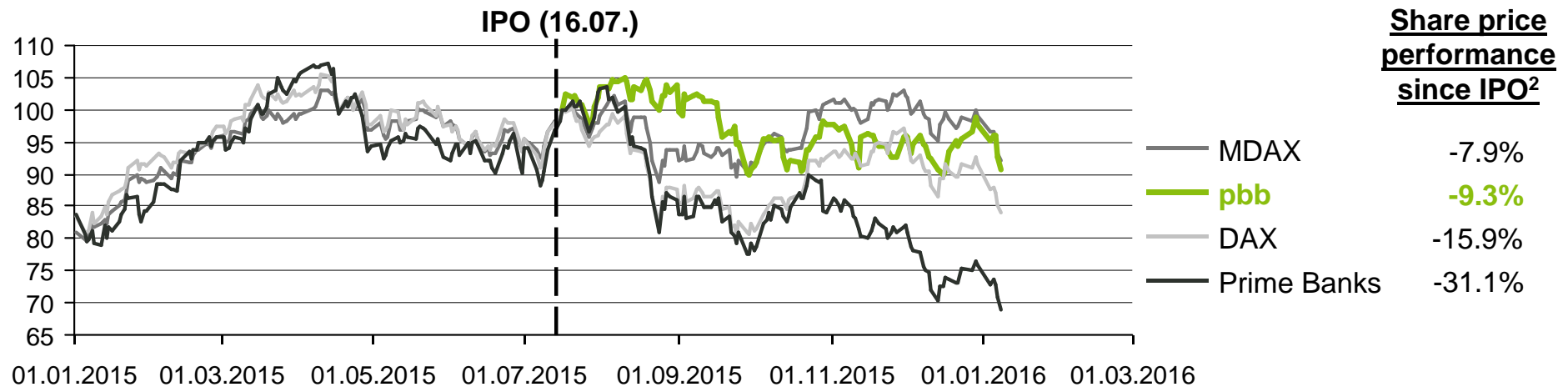
IPO successfully completed in July 2015



- IPO successfully completed in difficult market environment – biggest IPO 2015 in Germany at that time
- Shares placed at EUR 10.75 per share – total gross volume of placement at rd. EUR 1.2 billion
- HRE has undertaken, via a lock-up-agreement and subject to certain contractual exceptions, to hold 20% of the share capital until mid-July 2017
- MDAX listed since September 2015

Share price performance¹

indexed, based on daily closing price



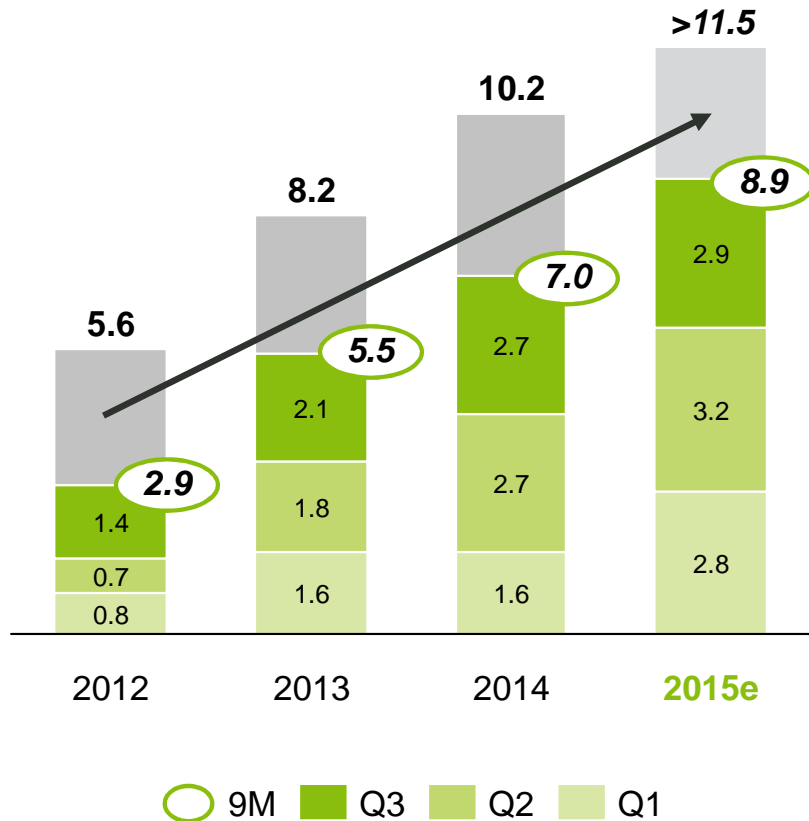
¹ Source: Bloomberg ² as of 8 January 2016

1 Successfully positioned and reprivatised

Positive business development in a continued favourable but increasingly competitive market environment

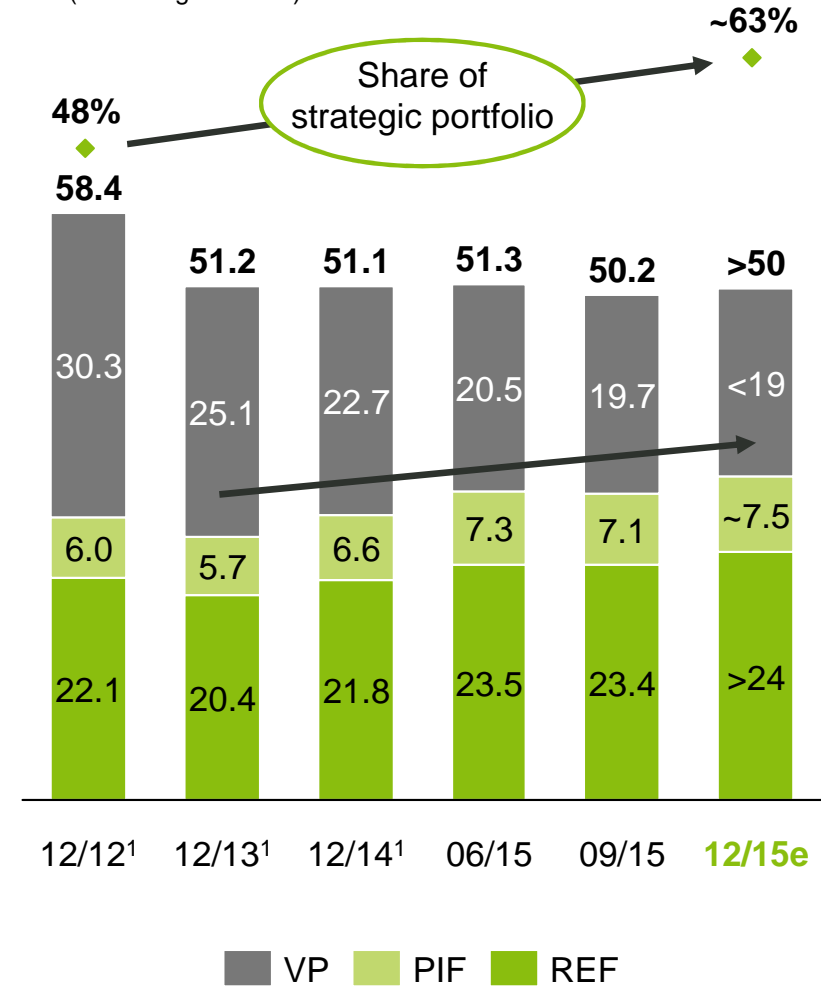
New business

EUR billions (Commitments, incl. extensions >1 yr)



Portfolio volume

EUR billions (Financing volumes)



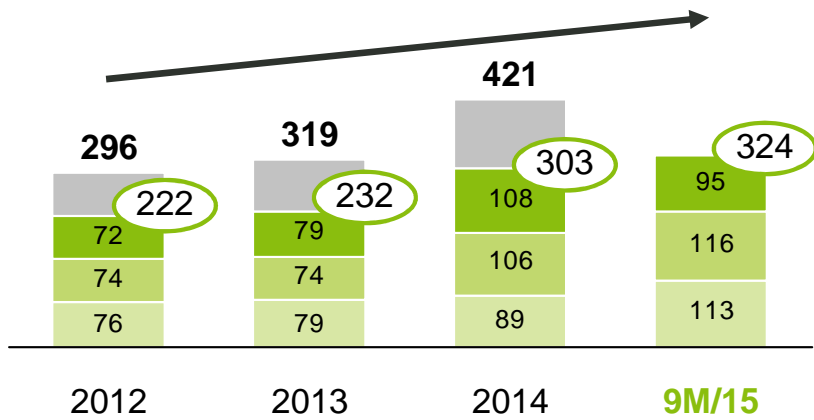
Note: Figures may not add up due to rounding 1 Restated; figures retrospectively adjusted for transfer of Italian PIF portfolio into VP (as of 01/01/15)

1 Successfully positioned and reprivatised

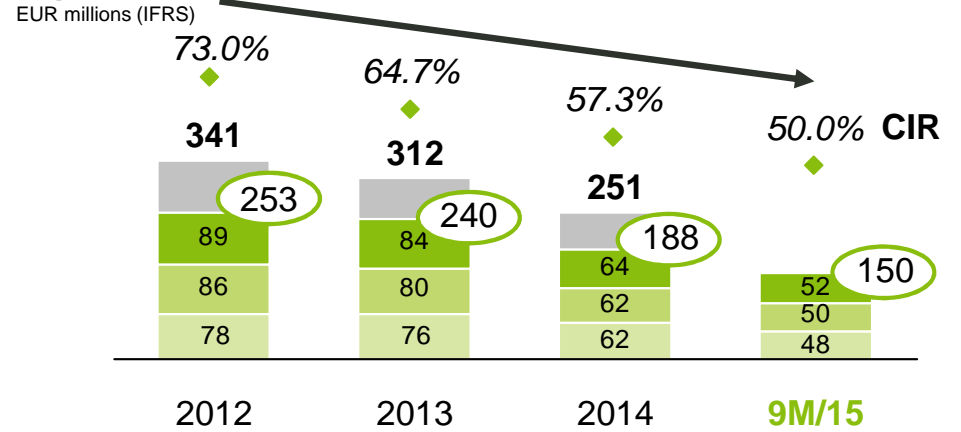
Significant improvement of profitability achieved – Q3/15 NII burdened by high early extensions/prepayments of higher margin loans



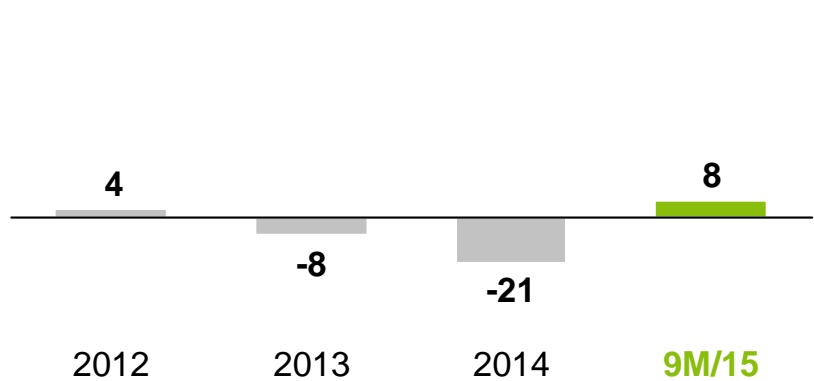
Net interest income EUR millions (IFRS)



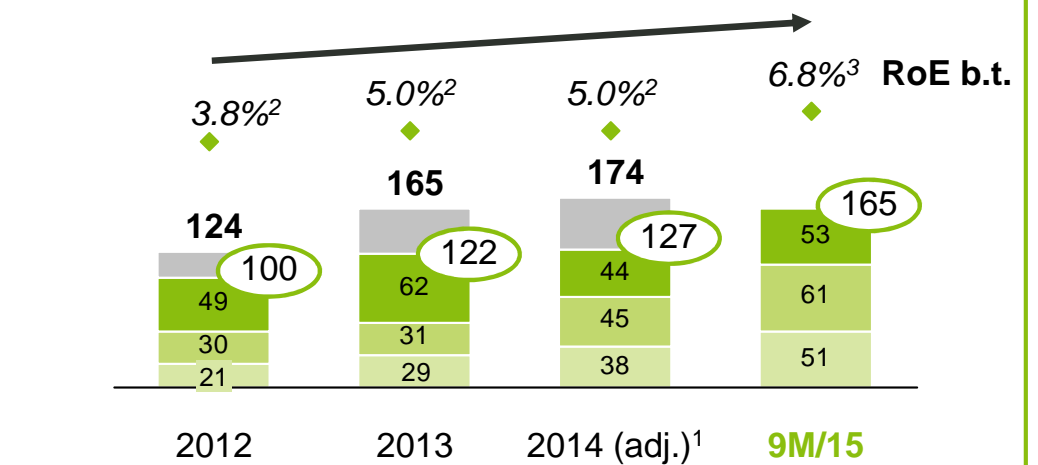
General and admin. expenses EUR millions (IFRS)



Loan-loss provisions EUR millions (IFRS)



Pre-tax profit EUR millions (IFRS)



Note: Figures may not add up due to rounding. ¹ Adjusted for EUR -120 mn extraordinary effects from value adjustments on HETA exposure. ² Incl. EUR 1 bn silent participation of Sonderfonds Finanzmarktstabilisierung (FMS). ³ Calculation based on average equity; EUR 1 bn silent participation of Sonderfonds Finanzmarktstabilisierung (FMS) included until redemption on 6 July 2015.

2 A leading Commercial Real Estate Finance and Public Investment Finance specialist

Balanced business model with European coverage



1

pbb

A leading European Commercial Real Estate and Public Investment Finance specialist

Strategic business

Non-strategic
(run-down)

2 Real Estate Finance (REF)
Specialised lender for professional real estate investors and real estate companies

3 Public Investment Finance (PIF)
Financing of public investments backed by projects, such as cash flow based infrastructure

5 Value Portfolio (VP)
High quality public sector portfolio, only Budget Finance

C&A
Bank steering/ ALM

Origination

4 Syndication + Placements

6 Refinancing

Processing

7 Risk Management

Steering

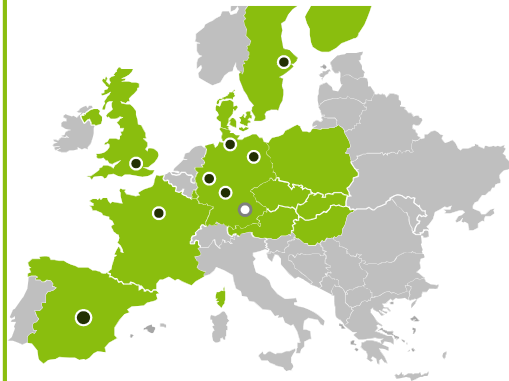
- 1 European coverage with **high profile franchise** and **strong footprint in Germany**
- 2 REF well established with **long-standing client relationships** and **highly experienced, skilled and stable origination teams**
- 3 PIF developing as **complementary contributor** to REF, supporting revenue stream
- 4 Margin enhancement potential through **increase of syndication and placement activities**
- 5 **Capital reallocation** from Value Portfolio enables **growth in higher-margin strategic portfolio**
- 6 **Stable and well diversified funding base** with German Pfandbrief as main funding instrument
- 7 **Fully integrated risk governance on unified and up-to-date IT platforms** ensures efficient and effective workflows

2 A leading Commercial Real Estate Finance and Public Investment Finance specialist

pbb is one of the major players in Europe with high market penetration



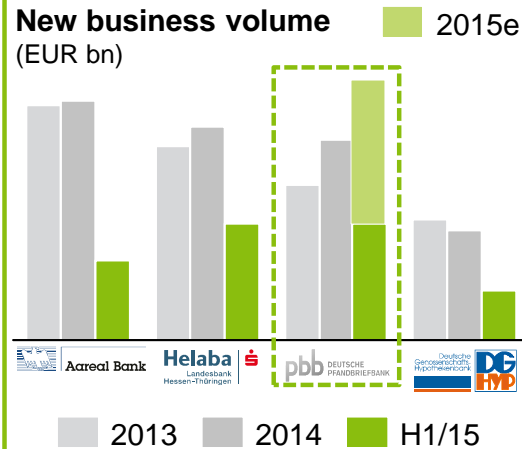
Markets



- 9 offices in Europe
- Specialist staff with local knowledge
- Long-standing relationship with professional national and international clients
- 2015e: ~175 REF deals (avg. deal size EUR ~55-60 mn) and ~45 PIF deals (avg. deal size EUR ~30-35 mn)

○ Headquarter ● Branches/rep. offices¹

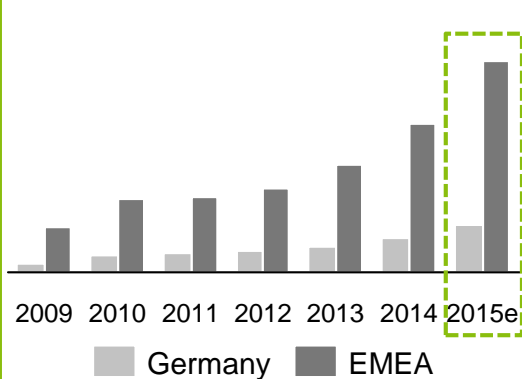
Competition



- Top 3 Commercial Real Estate Finance bank in Germany
- Selection to focus on most profitable new business
- Continuing overall favorable market environment attracts more financing providers, resulting in increasing competition and margin compression

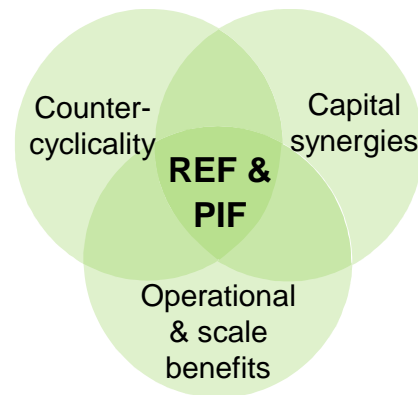
Real Estate Finance (REF)

CRE transaction volume development (EUR bn)



- High demand for property investments continues
- Further positive near-term development in pbb's core markets expected
- High share of equity in transactions allows conservative risk profile financing

Public Investment Finance (PIF)



- Public Sector as major user and provider of real estate
- Complementary contributor to REF, supporting revenue stream diversification
- Combination of REF and PIF generates significant capital synergies
- Stable earnings source with low expected risk costs

Source: Company information, JLL, Cushman & Wakefield 1 One subsidiary in Tokyo, which will be closed; no new business

2 A leading Commercial Real Estate Finance and Public Investment Finance specialist

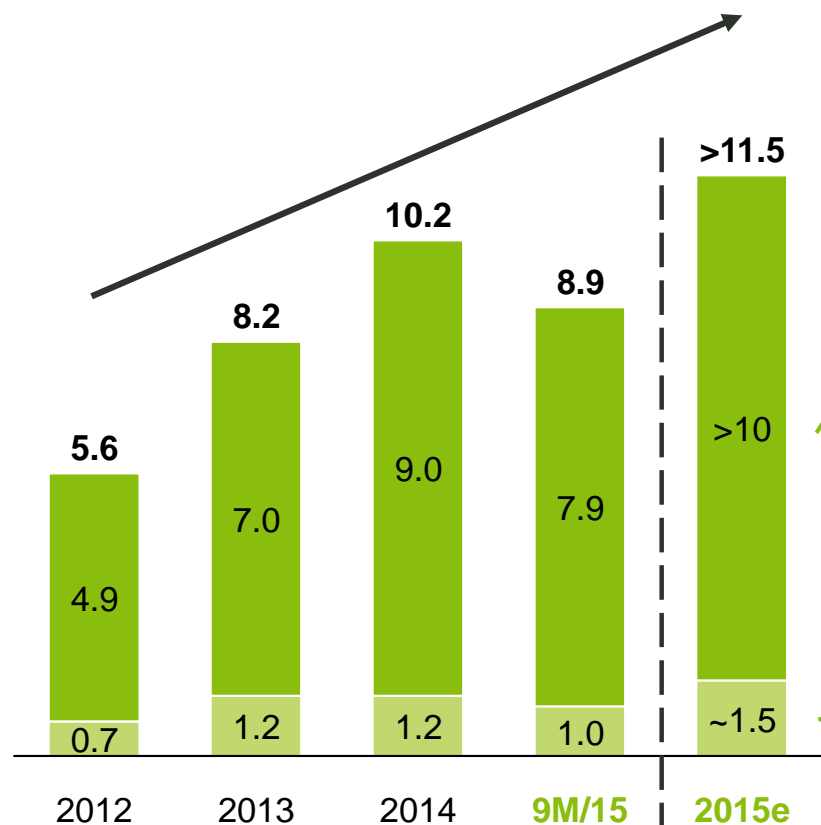
Overall margin compression remains – continued high demand in CRE markets allows for selective new business



New business

EUR billions (Commitments, incl. extensions >1 yr)

REF
PIF



Real Estate Finance	2012	2013	2014	9M/15
Total volume (EUR bn)	4.9	7.0	9.0	7.9
<i>New commitments</i>	2.9	5.3	6.9	5.9
<i>Extensions >1 year</i>	2.0	1.7	2.1	2.0
No. of deals	79	131	161	128
Average maturity (years) ²	~4.5	~4.4	~5.1	~5.7
Average LTV (%) ³	56	61	64	63
Average gross margin (bp)	>225	>225	>200	~170

Public Investment Finance	2012	2013	2014	9M/15
Total volume (EUR bn)	0.7	1.2	1.2	1.0
No. of deals	42	34	42	23
Average maturity (years) ¹	~7.0	~8.1	~6.7	~7.8
Average gross margin (bp)	>140	>100	>75	>70

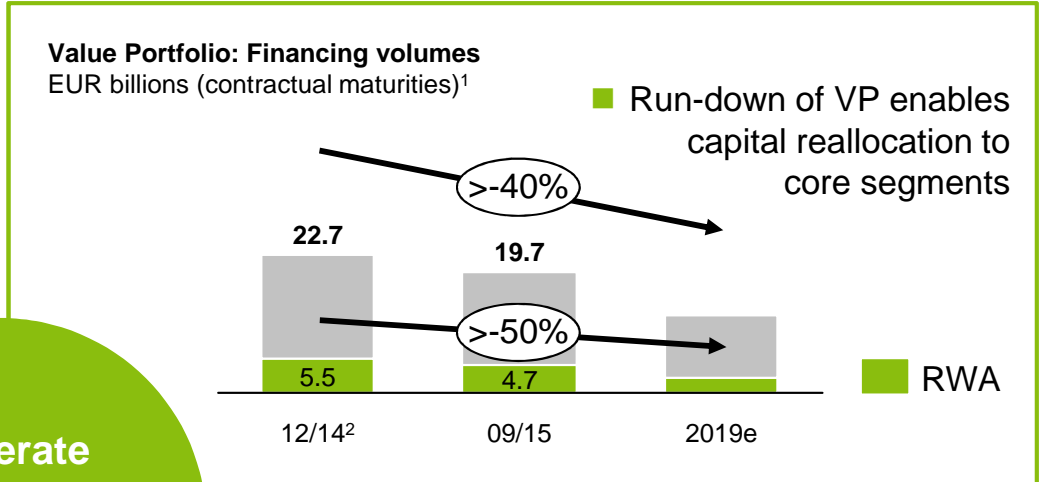
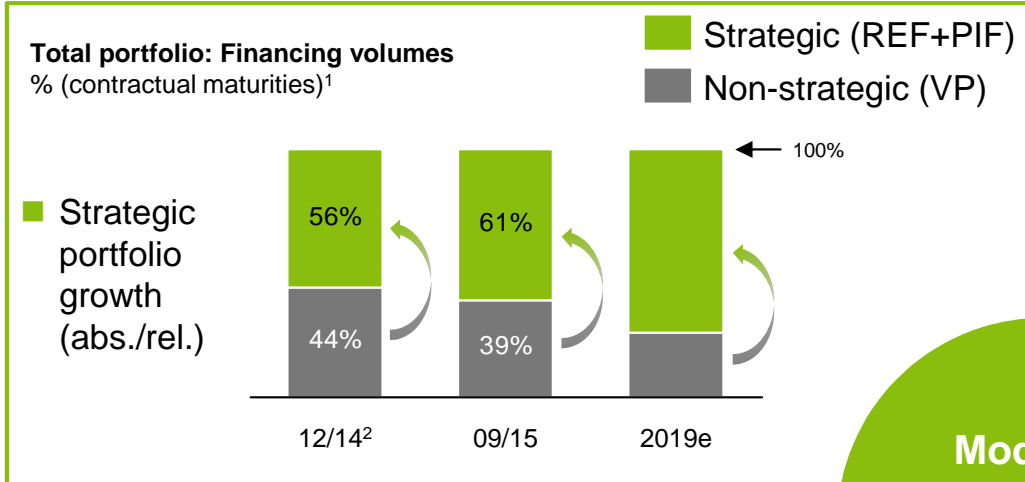
Note: Figures may not add up due to rounding 1 WAL 2 Legal maturity 2 New commitments; avg. LTV (extensions): 56% (9M/15), 65% (2014), 74% (2013), 70% (2012)

3 Key drivers of profitability

Run-down of Value Portfolio enables growth of core business through internal reallocation of capital – NII to be supported by increase of syndication/placement activities

Strategic portfolio

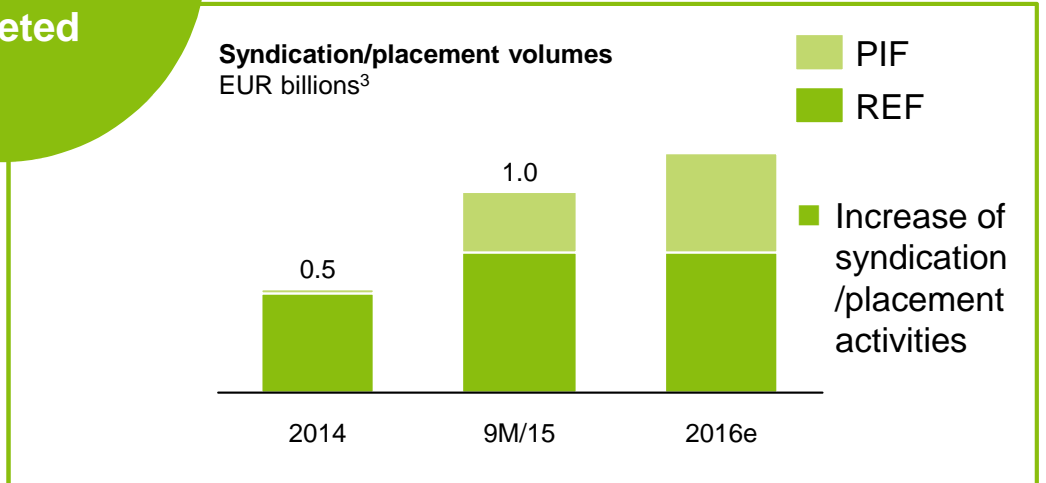
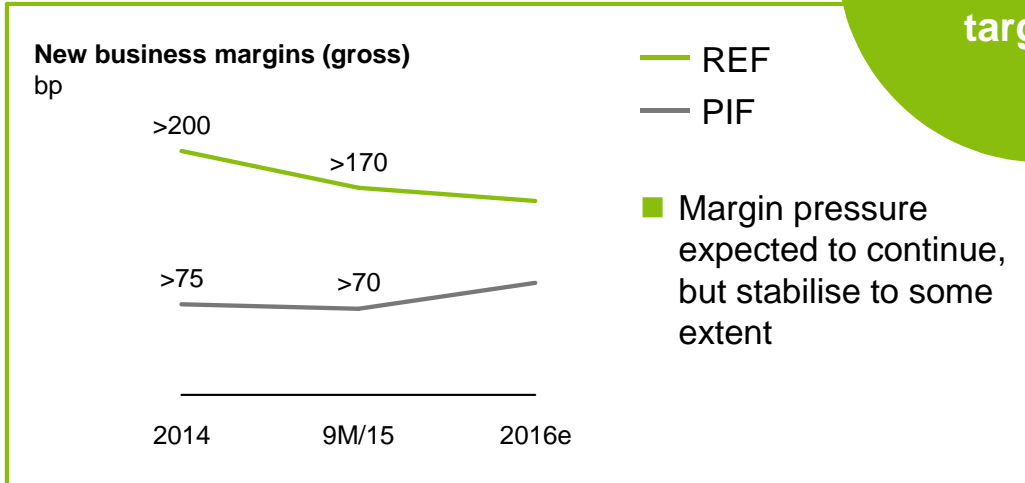
Value Portfolio



Moderate increase of NII targeted

Margins

Syndication/placements



Note: Figures may not add up due to rounding (as of 01/01/15) 1 Excl. FMS-WM guaranteed exposure 2 Restated; figures retrospectively adjusted for transfer of Italian PIF portfolio (nominal: EUR 1.3 bn; RWA: EUR 1.1 bn) into VP 3 Excl. pre-syndication

3 Key drivers of profitability

Future NII expected to be largely influenced by growth of strategic portfolio, lower pre-payments and syndication/placement activities

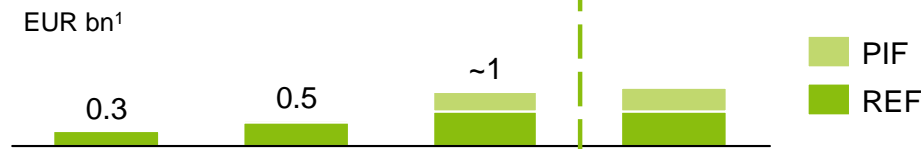
Strategic portfolio growth



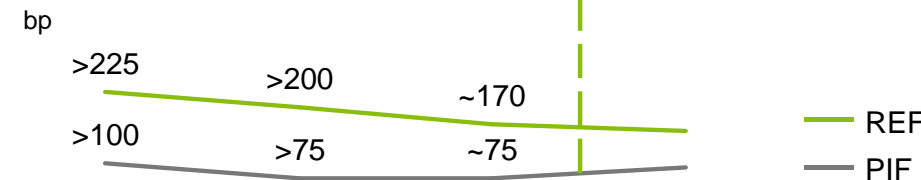
Pre-payments



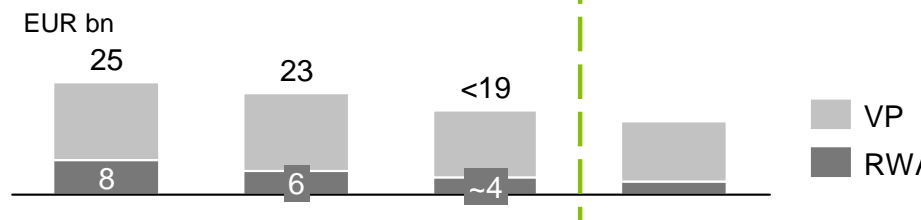
Syndication/placements



New business margin (gross)



Run-down Value Portfolio



- Strategic portfolio growth driven by
 - New business to continue on 2014/2015 levels
 - Lower pre-payments
 - Ongoing capital reallocation from Value Portfolio
- Increase of syndication/placement activities to support profitability
- Margin pressure expected to continue, but stabilise to some extent
- New business margin approaching portfolio margin
- Run-down of Value Portfolio enables growth in strategic business

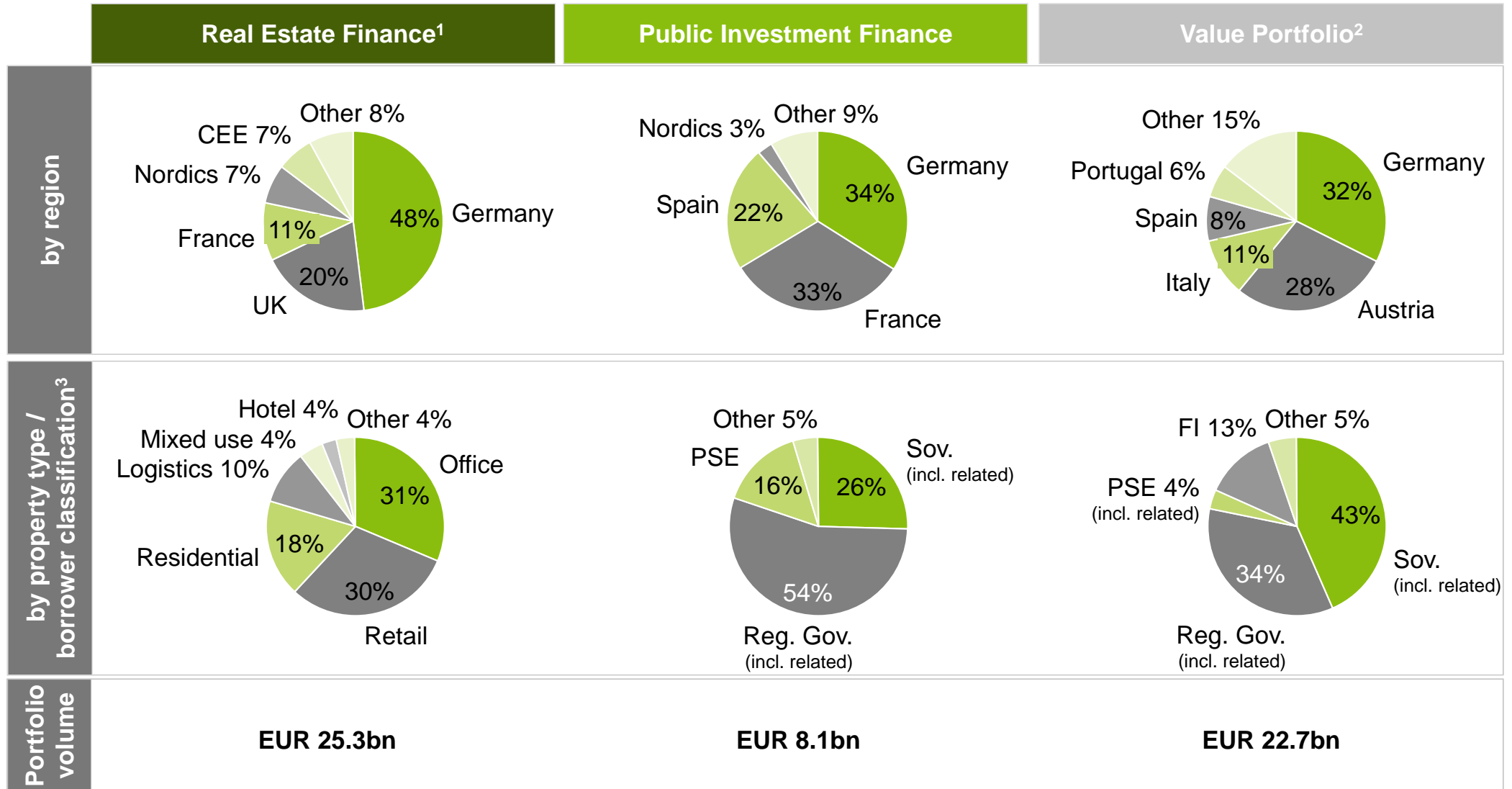
1 Excl. pre-syndication

4 Sustained high portfolio quality

Focus on developed European markets, particularly on Germany



(as of 30/09/2015; EaD, Basel III)



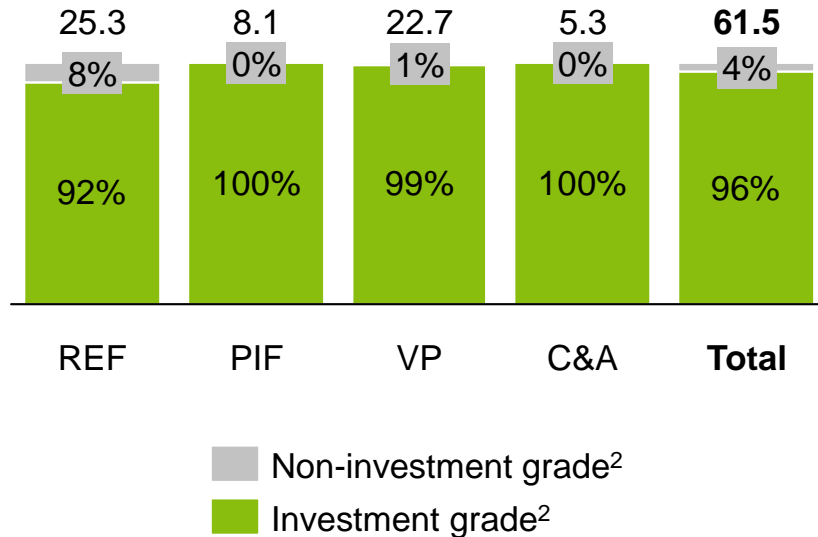
Note: Figures may not add up due to rounding 1 Excl. intra-group exposure 2 Excl. FMS-WM guaranteed exposure 3 See appendix for definition of borrower classification

4 Sustained high portfolio quality

Stringent risk policy and integrated processes designed to retain high portfolio quality

Total portfolio: Internal ratings (EL classes)

30/09/2015: EUR billions (EaD, Basel III)¹

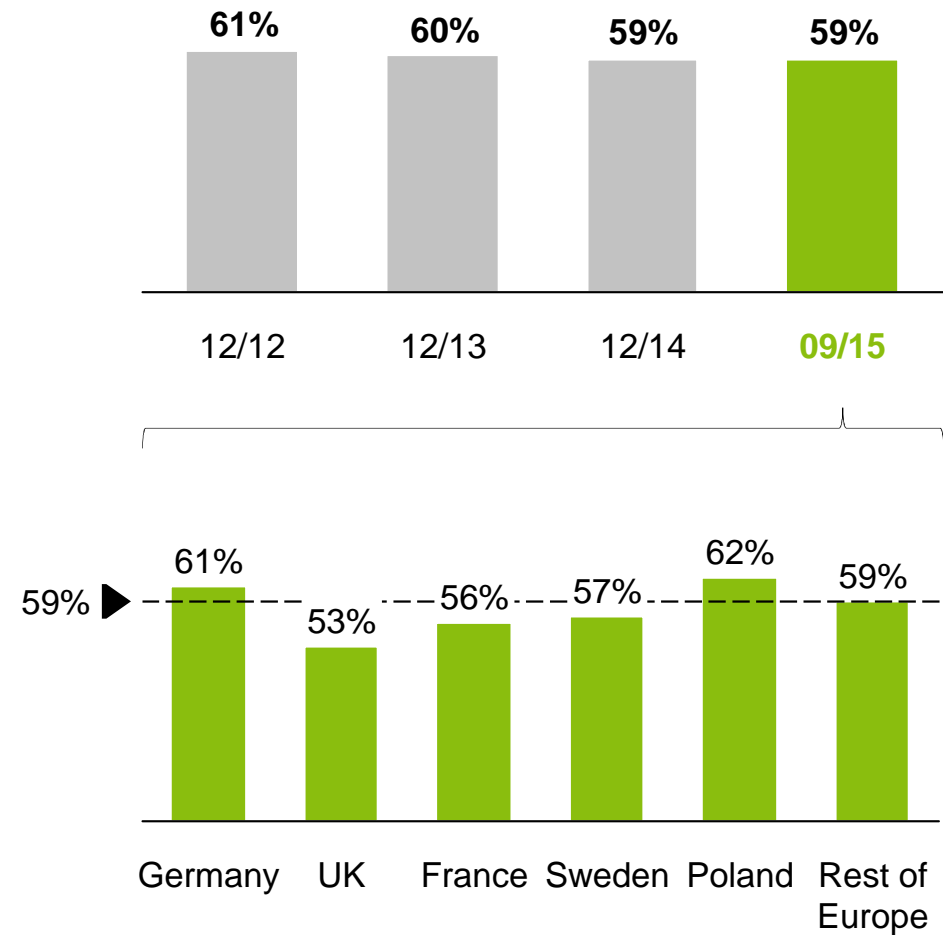


➔ Stringent risk policy leads to a sustained high credit quality

➔ Integrated risk governance on unified IT platforms ensures efficient and effective workflows

REF Portfolio: Avg. weighted LTVs

(Commitments)³



Note: Figures may not add up due to rounding ¹ Excl. FMS-WM guaranteed exposure ² EL classes 1-8 = Investment grade; EL classes 9-18 = Non-investment grade ³ Based on performing loans only

4 Sustained high portfolio quality

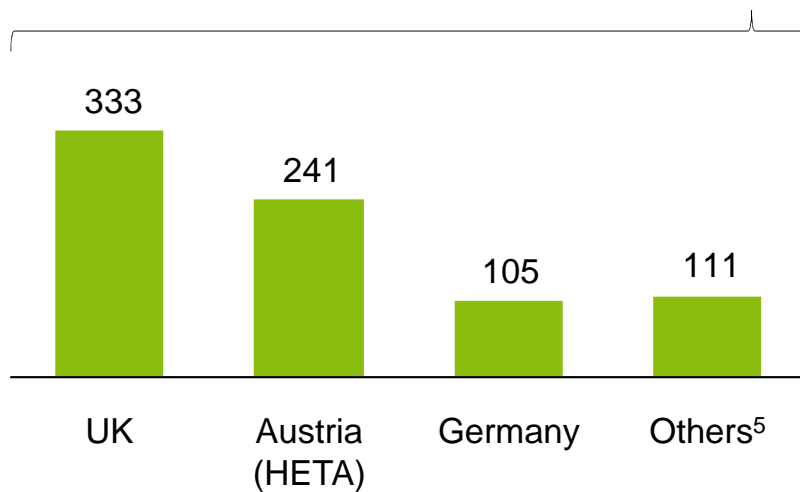
Low share of problem loans

Total problem loans

EUR millions (EaD)^{1,2}

	2012	2013	2014	9M/15
Workout ³	11	6	9	9
Restructuring ⁴	1,079	935	1,134	780
<i>thereof HETA</i>	–	–	314	241
Coverage ratio	32%	32%	30%	36%

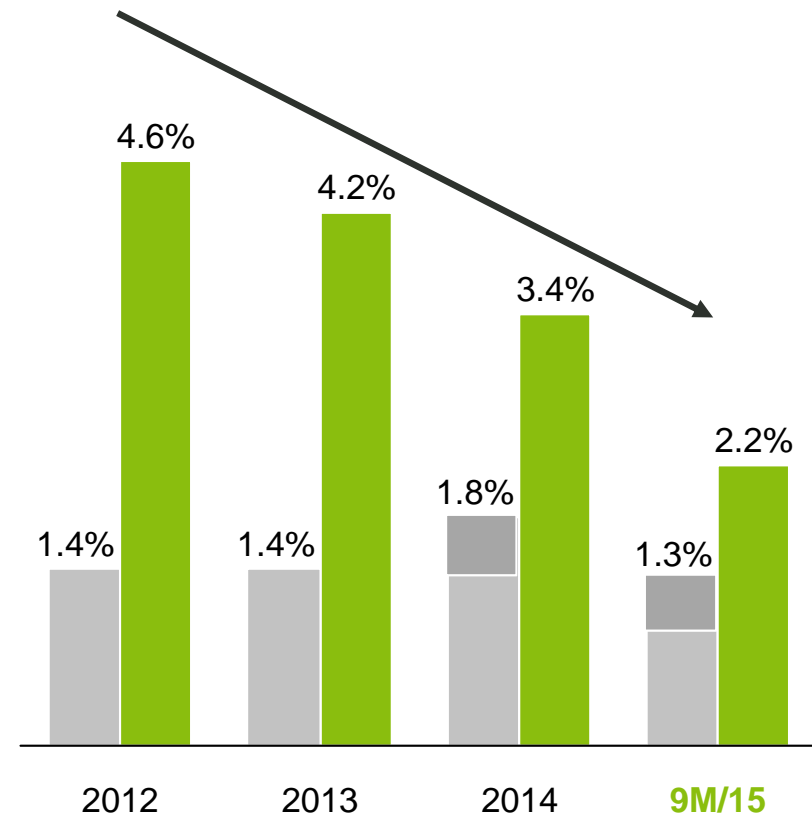
The coverage ratio does not take into account additional collateral – incl. additional collateral, REF coverage ratio at rd. 100%



Problem loan ratio

% (EaD)¹

■ Total portfolio (thereof: ■ HETA)
■ Real Estate Finance

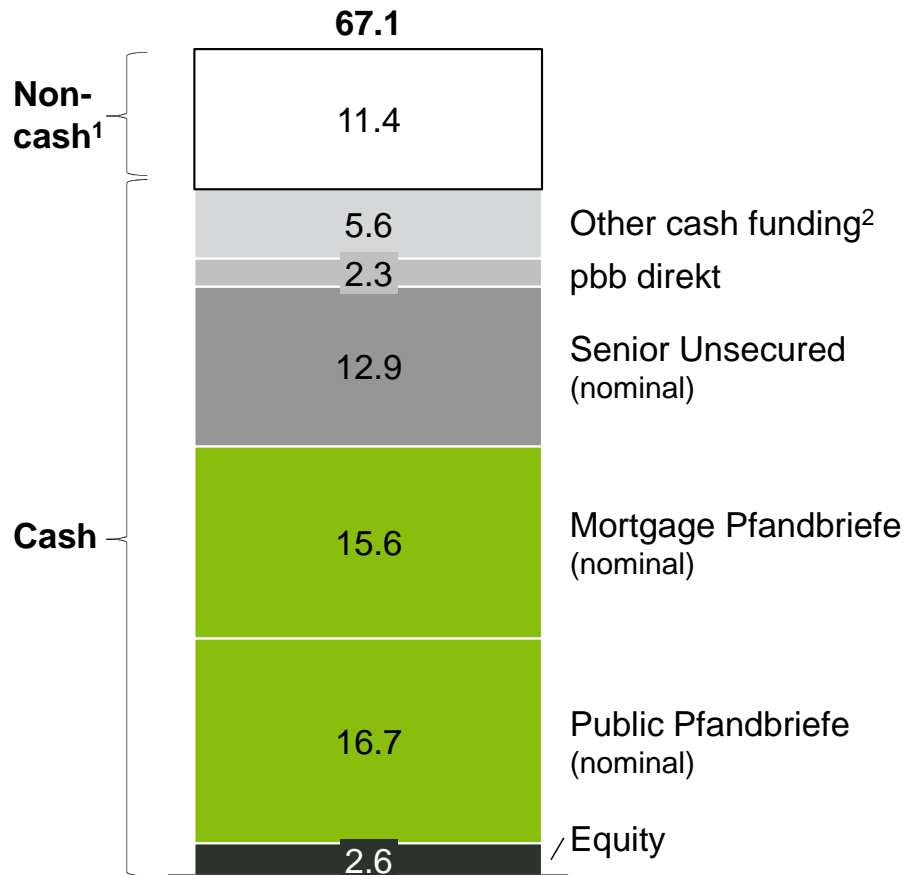


Note: Figures may not add up due to rounding ¹ 2012 based on Basel II, 2013 based on revised Basel III, 2014 based on Basel III ² In addition, in C&A EUR 1 mn (2014), EUR 6 mn (2013 and 2012) ³ PD class 30: Impairment and foreclosure measures, default acc. CRR Art. 178 ⁴ PD class 28+29: Non-performing loans where the restructuring strategy should be carried out ⁵ Incl. Hungary, Spain, Netherlands

5 Stable and diversified funding base

Well established access to diverse and attractive funding sources – German Pfandbrief as main funding instrument

30/09/2015: Liabilities and equity
EUR billions (IFRS)



Pfandbrief	<ul style="list-style-type: none"> pbb is the largest issuer by outstanding volume Well known and established product in the capital markets Funding source with relatively low funding costs Highly regulated
Senior Unsecured	<ul style="list-style-type: none"> Refinancing of Pfandbrief-ineligible portion and over-collateralisation requirements Private placements (promissory notes, bearer bonds) as stable and granular basis plus public benchmarks
pbb direkt	<ul style="list-style-type: none"> Retail deposit base (online-platform for call money and term deposits) Diversification of funding sources to complement existing unsecured wholesale funding
Other cash funding	<ul style="list-style-type: none"> Capital instruments Interbank funding Collateral received under CSAs

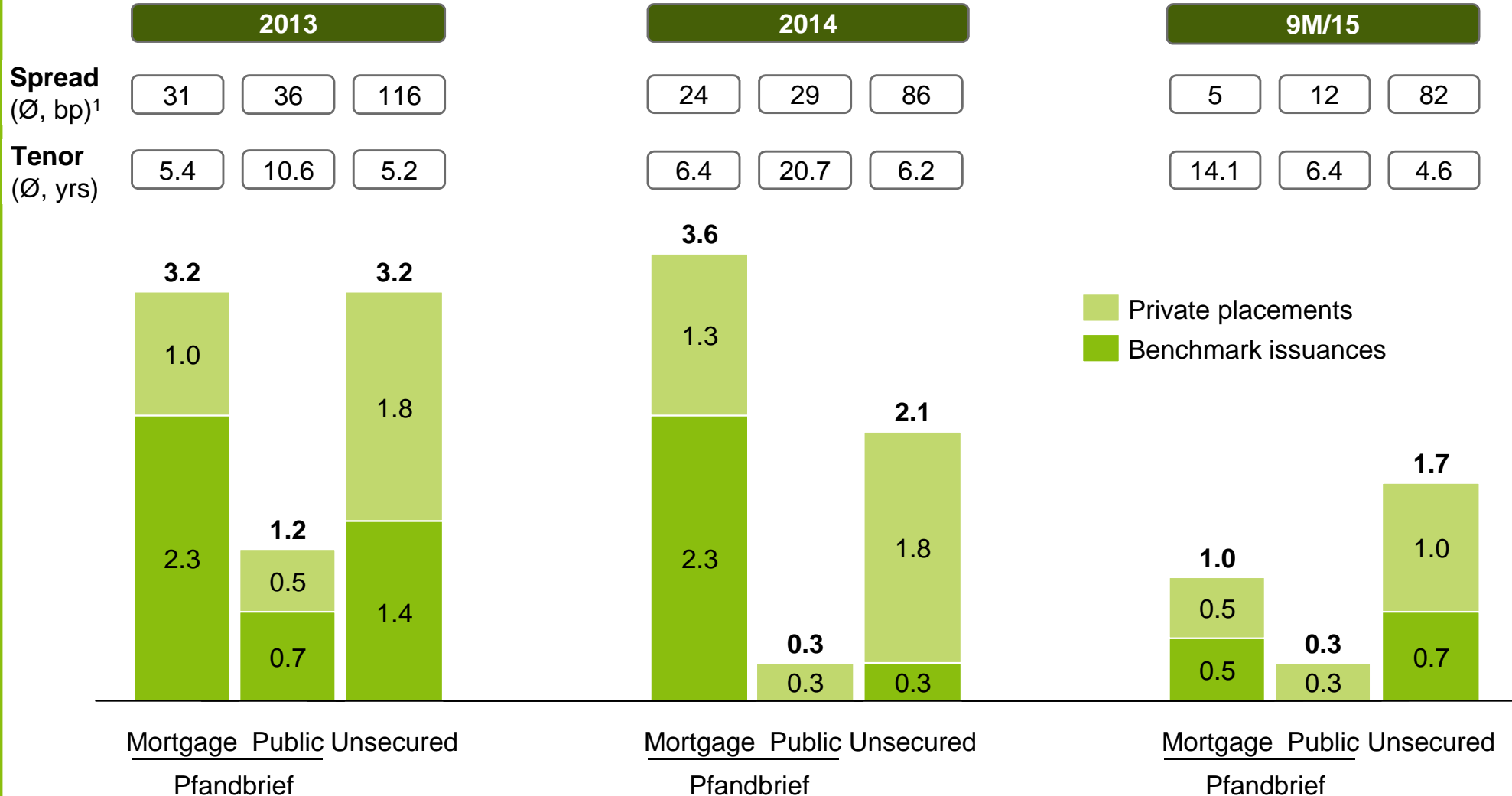
1 Derivative Fair Values, Fair Value Adjustments, Other Liabilities 2 Repo, Accrued Interest, Collateral, Money Market, Loro, Hybrids, Sub-Debt

5 Stable and diversified funding base

Strong repayments and liquidity position allowed for reduced funding activities in 2015

New long-term funding

EUR billions



Note: Figures may not add up due to rounding 1 vs. 3M Euribor

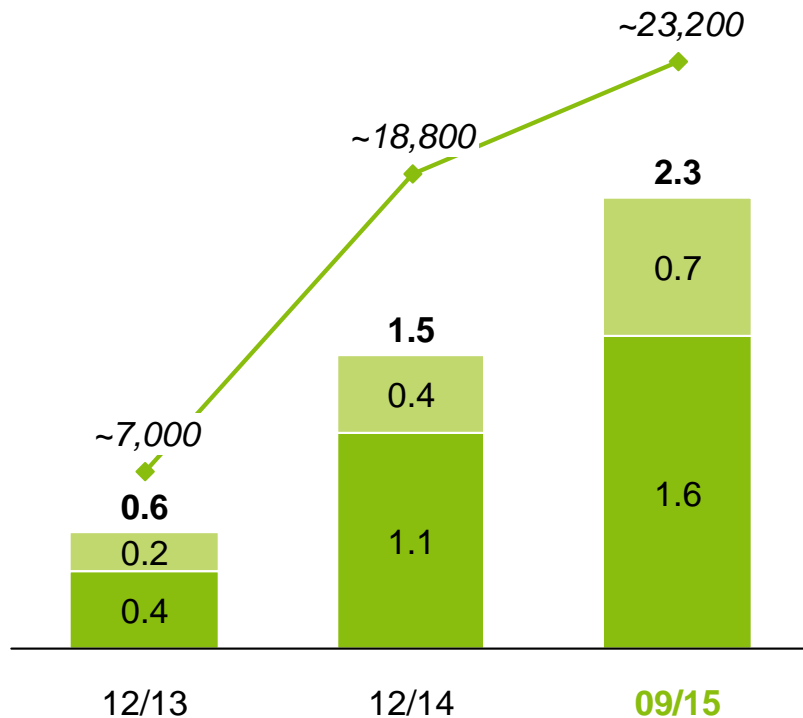
5 Stable and diversified funding base

pbb direkt – diversification of funding sources through retail deposit base

Retail deposits: Total volume

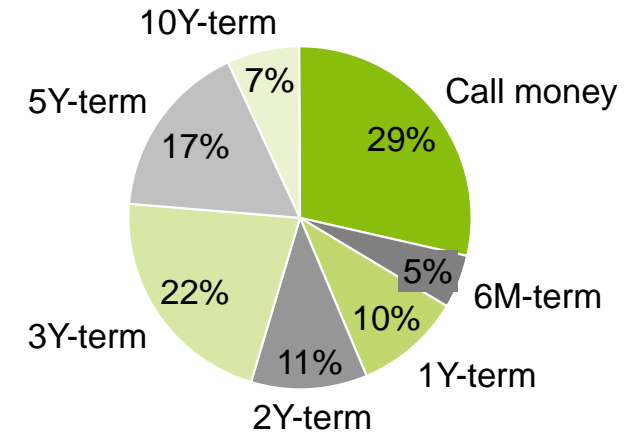
EUR billions

- ◆ No. of clients¹
- Overnight deposits
- Term deposits



Retail deposits: Terms

30/09/2015: EUR 2.3 bn



- Diversification of funding sources to complement existing unsecured wholesale funding
- Online-platform offering overnight and term deposits
- Continuous increase of clients and volume since launch in March 2013

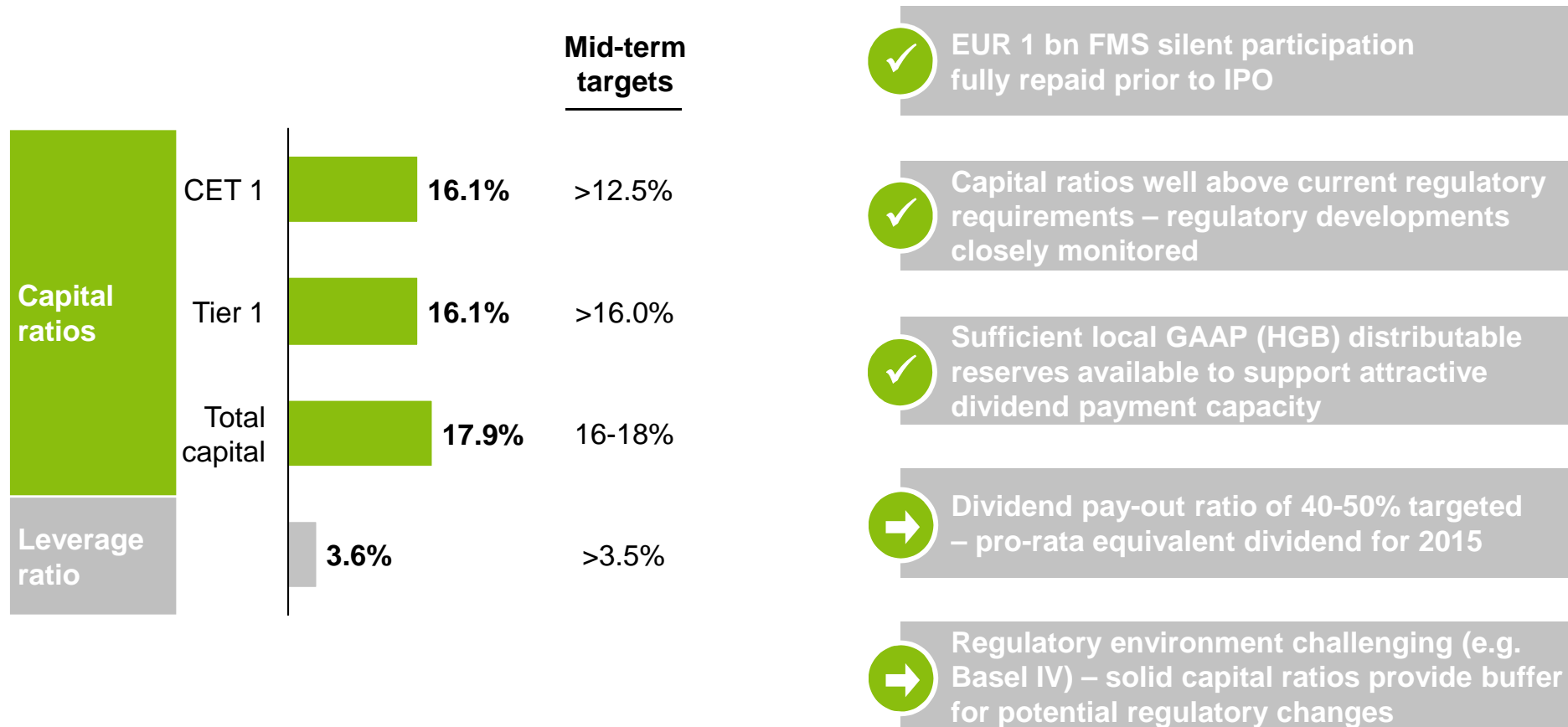
Note: Figures may not add up due to rounding ¹ Only accounts with money inflow, excluding terminated accounts

6 Solid capitalisation

Solid capital ratios – attractive dividend policy with target pay-out ratio of 40-50%

Capital ratios (fully loaded)¹

30/09/2015



¹ Based on currently known CRR rules, delegated act not yet taken in account; actual figures may vary significantly from simulation

➔ **Strong operating performance in 2015 – initial full-year PBT expectation raised with Q3/15 results on a more favourable trend than initially expected**

➔ **Attractive dividend policy with target pay-out ratio of 40-50% – pro-rata equivalent for 2015**

Expected trends 2016

➔ Market environment	▶ to remain supportive
New business volume	▶ keep stable
New business margin (gross)	▶ slightly down
Strategic portfolio	▶ to grow
Pre-payments	▶ significantly lower
Syndication/placements	▶ to visibly increase
Value Portfolio	▶ systemic run-down

Preliminary Annual Results 2015 will be published 2 March 2016

Appendix



Strong and experienced management team



Andreas Arndt



Thomas Köntgen



Andreas Schenk



Dr. Bernhard Scholz

Co-CEO and Chief Financial Officer

- Co-CEO of pbb since October 2014 and CFO since April 2014
- 30 years of experience in the financial industry
- Previous roles include CFO of BAWAG P.S.K. AG as well as various management roles at Deutsche Bank Privat- und Geschäftskunden AG

Co-CEO and Treasurer

- Co-CEO of pbb since October 2014
- Almost 25 years of experience in the financial industry
- Before joining pbb, Mr. Köntgen was with Hypothekenbank Frankfurt (former Eurohypo) for 12 years, thereof nearly 6 years Member of the Management Board (the last recent 2 years as CEO)

Chief Risk Officer

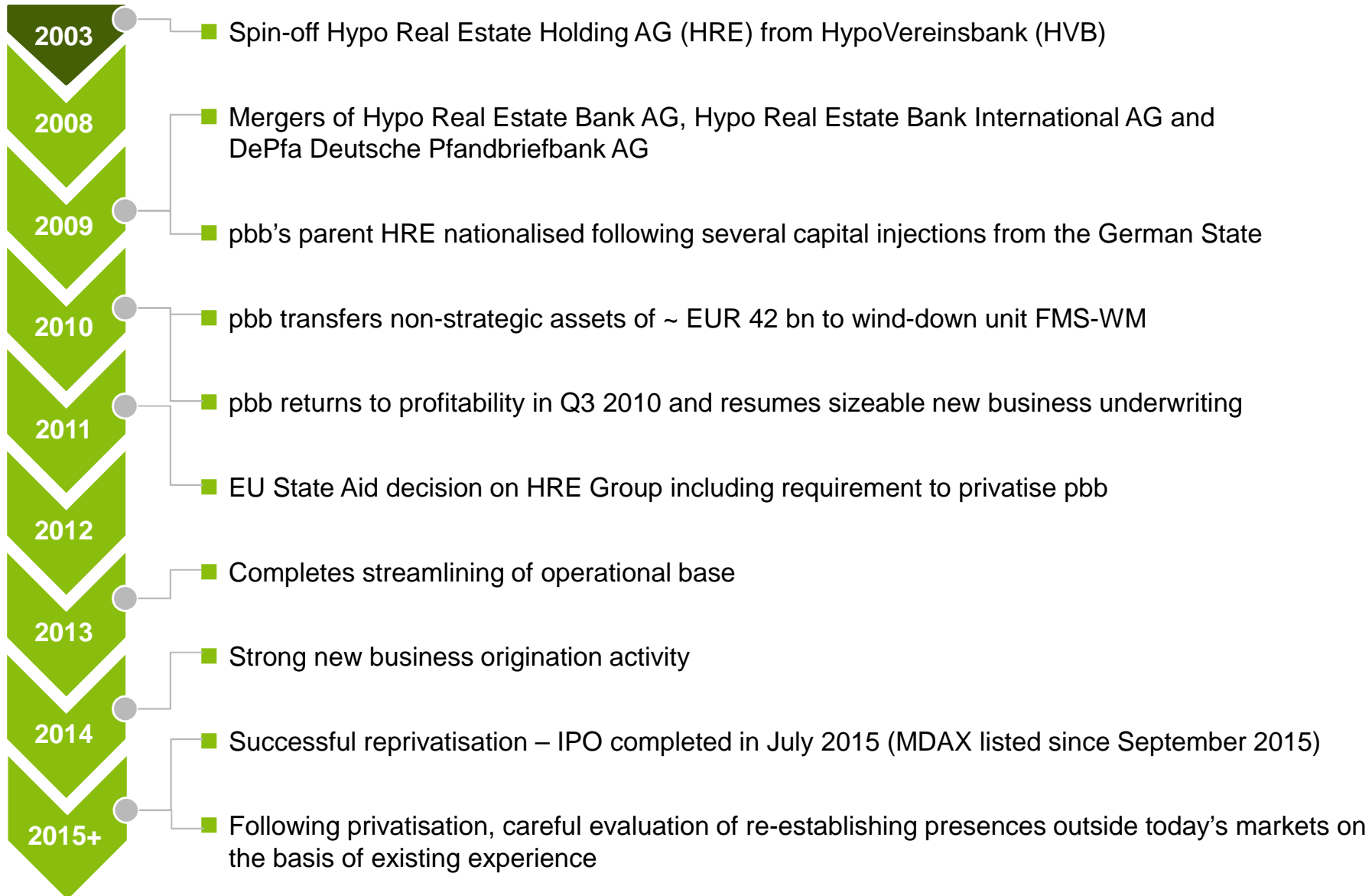
- CRO of pbb since March 2014
- More than 15 years with pbb
- Former positions include Chief Credit Officer and Head of Treasury

Real Estate Finance and Public Sector Finance

- Member of the Management Board of pbb since January 2010
- Almost 30 years of experience in the financial industry
- Previously a Member of the Management Board at Münchener Hypothekenbank

History

Since 2010, pbb has been significantly restructured and re-aligned



Key figures

pbb Group



Income statement (EUR millions)	2012	2013	2014	2014 (adjusted) ¹	9M/15
Net interest income	296	319	421	421	324
Net fee and commission income	23	9	1	1	12
Net trading income	10	-51	-30	-27	7
Net income from financial investments	13	96	-77	32	-32
Net income from hedging relationships	-6	9	-3	-3	9
Net other operating income/expenses	131	100	14	14	-20
Operating income	467	482	326	438	300
Loan-loss provisions	4	-8	-21	-13	8
General and administrative expenses	-341	-312	-251	-251	-150
Net miscellaneous income/expenses	-6	3	-	-	7
Profit or loss before tax	124	165	54	174	165
Income taxes	-55	-5	-50	-58	-24
Net income/loss	69	160	4	116	141
Key ratios (%)	2012	2013	2014	2014 (adjusted) ¹	9M/15
CIR	73.0	64.7	77.0	57.3	50.0
RoE before tax ⁴	3.8	5.0	1.6	5.0	6.8
RoE after tax ⁴	2.1	4.9	0.1	3.4	5.8
Balance sheet (EUR billions)	12/12 ²	12/13 ³	12/14		09/15
Total assets	97.1	74.6	74.9 ⁶		67.1
Equity (excl. revaluation reserve)	3.2	3.4	3.4		2.6
<i>thereof: Silent participation⁵</i>	1.0	1.0	1.0		-
Financing volume (nominal)	58.4	51.2	51.1		50.2
Regulatory capital ratios (pro-forma) ⁷	12/12 ⁹	12/13	12/14 ¹¹		09/15 ¹¹
RWA (EUR bn)	15.3	14.1 ⁹ / 18.1 ¹⁰	15.5		13.8
CET 1 ratio (%) ⁸	n/a	17.6 ⁹ / 18.5 ¹⁰	21.7		17.0
Personnel	12/12	12/13	12/14		09/15
Employees (FTE)	981	803	812		785

Note: Annual results audited, interim results unaudited 1 Adjusted for EUR -120 mn extraordinary effects from value adjustment on HETA exposure 2 Revised due to retrospective first time adoption IAS 19 3 Revised due to retrospective first time adoption IFRS 10 4 Calculation based on average equity; EUR 1 bn silent participation of Sonderfonds Finanzmarktstabilisierung (FMS) included until redemption on 6 July 2015 5 EUR 1 bn FMS silent participation redeemed on 6 July 2015 6 Revised due to IAS 8.14 et seq 7 Until 15/07/2015, under the 'Waiver Rule' pbb calculated regulatory capital ratios on a voluntary basis 8 Incl. full-year results, excl. interim results 9 Basel II (SolvV, HGB) 10 Basel III simulation 11 Basel III transitional rules

Heta Asset Resolution AG (HETA)

Total valuation adjustments of EUR 197.5 mn – pbb's HETA exposure (nominal EUR 395 mn) valued at ~50%



HETA adjustment P&L impact (EUR mn)			
	pre Q4/14	Q4/14	Q1/15
Net income from financial investments	(1.5)	(109)	(73)
Loan loss provisions		(8)	(6)
Total value adjustments	(1.5)	(117)	(79)
Net trading income		(3)	(3)
Total HETA effects	(1.5)	(120)	(82)

Total value adjustments (197.5)

2014	<ul style="list-style-type: none"> ■ EUR -118.5 mn (thereof EUR -117 mn in Q4/14) value adjusted on exposure of nominal EUR 395 mn (Value Portfolio) ■ Decision taken in response to moves by the Austrian Financial Market Authority (FMA) and the Austrian federal government
Q1/15	<ul style="list-style-type: none"> ■ Further value adjustments of EUR -79 mn ■ Together with the provisions in 2014, the total provisioning was increased to ~50% of the notional value ■ This increase was made following recommendations made by the Financial Regulators

Ratings

Mandated ratings



as of 8 January 2016

	S&P ¹	DBRS	Moody's ²
Pfandbrief ratings			
Public Sector Pfandbrief			Aa1
Mortgage Pfandbrief			Aa1
Bank ratings			
Long-term	BBB	BBB	
Outlook/Trend	Stable	Stable	
Short-term	A-2	R-2 (high)	
Stand-alone rating ³	bbb-	BBB	

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Note: The above list does not include all ratings 1 Pfandbrief Ratings withdrawn by S&P on 11 December 2015, following the termination of the mandate by pbb 2 Unsecured Bank Ratings withdrawn by Moody's on 29 June 2015, following the termination of the mandate by pbb 3 S&P: Stand-alone credit profile; DBRS: Intrinsic Assessment

Definition of borrower classifications

Borrower classification	Definition
Sovereign	Direct and indirect obligations of Central Governments, Central Banks and National Debt Agencies
Sovereign (related)	Indirect obligations of Non Sovereigns with an explicit first call guarantee by a Sovereign
Regional Government	Direct and indirect obligations of Regional, Provincial and Municipal Governments
Regional Government (related)	Indirect obligations of Non Regional Government with an explicit first call guarantee by a Regional Government
Public Sector Enterprise	Direct obligations of administrative bodies and non commercial/non-profit undertakings
Public Sector Enterprise (related)	Indirect obligations of Non Public Sector Enterprise with an explicit first call guarantee by a Public Sector Enterprise
Financial Institution	Direct and indirect obligations of Universal Banks, Investment Banks, Mortgage Institutions, Brokerages and other banks or Basel regulated institution
Corporation	Direct and indirect obligations of enterprises, established under corporate law and operating in a for profit or competitive environment
Structured Finance	Obligations of an SPV which references the risk of an underlying pool of securitised assets, either synthetically via CDS or directly, the tranches issued by the SPV have different seniority to each other
Supranational	Direct obligations to international Organisations and International Investment and Development Banks
Other	Direct obligations to Individuals

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