

Alternative
Performance Measure
as of 30 June 2017

Deutsche Pfandbriefbank Group

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK

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The consolidated interim financial statements as at 30 June 2017 are based on the International Financial Reporting Standards (IFRSs) as adopted in European law by the European Commission as part of its endorsement process. Please refer to the Notes to the consolidated financial statements as at 31 December 2016 for further information on the accounting and measurement principles.

Definitions and Usefulness

RETURN ON EQUITY

Definition

Within Deutsche Pfandbriefbank Group (pbb Group), return on equity before tax (after tax) is the ratio of profit or loss before tax (net income/loss) (annualised during the course of the year) and average equity excluding revaluation reserve.

$$\text{Return on equity before tax} = \frac{\text{profit or loss before tax (during the course of the year annualised)}}{\text{average equity excluding revaluation reserve}}$$

$$\text{Return on equity after tax} = \frac{\text{net income/loss (during the course of the year annualised)}}{\text{average equity excluding revaluation reserve}}$$

During the course of the year, the annualised profit or loss before tax (net income/loss) is based on the current figure (before/after tax) as disclosed according to IFRS, divided by the number of months elapsed and multiplied by the factor 12.

Average equity excluding revaluation reserve is the arithmetic mean based on the equity value according to IFRS excluding revaluation reserve at the beginning of the year and the equity values according to IFRS excluding revaluation reserve as disclosed at the quarterly reporting dates of the current financial year. Equity excluding revaluation reserve comprises the following items: subscribed capital, additional paid-in capital, retained earnings, profit/loss on pension commitments, foreign currency reserve, and consolidated profit.

Usefulness

pbb Group uses return on equity before (after) tax as most important key performance indicator (KPI) to measure profitability. Return on equity after tax is another KPI used in the internal management system.

However, the informative value of the respective KPI is limited by the fact that they represent rates (quota). Therefore, they do not provide information (and cannot be used to draw conclusions) on the absolute amount of profit or loss before tax (or net income/loss) or average equity excluding revaluation reserve. In addition, annualised projections of profit or loss before tax (or net income/loss) provided during the course of the year may be inaccurate due to the linear extrapolation method. Moreover, non-recurring effects may have an influence on return on equity before and after tax without any long-term repercussions on pbb Group's profitability.

COST-INCOME RATIO

Definition

Cost-income ratio is the ratio of general and administrative expenses to operating income.

$$\text{Cost-income ratio} = \frac{\text{general and administrative expenses}}{\text{operating income}}$$

Usefulness

Cost-income ratio is used within pbb Group as most important key indicator to monitor cost discipline and efficiency, and is defined as KPI in the internal management system.

However, the informative value of the cost-income ratio is limited by the fact that it represents a rate (quota). Therefore, it does not provide information (and cannot be used to draw conclusions) on the absolute amount of general and administrative expenses or operating income. Non-recurring effects may have an influence on the cost-income ratio through income and expenses without any long-term repercussions on pbb Group's efficiency.

COVERAGE RATIO

Definition

Coverage ratio is defined as the ratio of specific allowances on loans and advances to the gross carrying amounts for which specific allowances have been recognised.

$$\text{Coverage ratio} = \frac{\text{specific allowances on loans and advances}}{\text{gross carrying amount of impaired loans and advances}}$$

Usefulness

pbb Group uses the coverage ratio as a key indicator to measure coverage of loans and advances for which specific allowances have been recognised.

However, the informative value of the coverage ratio is limited by the fact that it represents a rate (quota). Therefore, it does not provide information (and cannot be used to draw conclusions) on the absolute amount of specific allowances or the gross carrying amounts of loans and advance for which specific allowances have been recognised. Received collateral is not taken into consideration in this calculation. Furthermore, the coverage ratio cannot be used to draw conclusions regarding the coverage of items for which no specific allowances have been recognised. Moreover, the coverage ratio cannot be used to draw conclusions regarding impairment losses pbb Group might be required to recognise in future.

FINANCING VOLUMES

Definition

Financing volume is the notional amount of the drawn parts of granted loans and the securities portfolio (customer business). The financing volume includes loans and advances to other banks, loans and advances to customers as well as financial investments.

The average financing volume is the arithmetic mean based on the value at the beginning of the year and the values at the quarterly reporting dates of the current financial year.

Usefulness

The financing volumes of the strategic segments Real Estate Finance and Public Investment Finance are defined as financial KPIs in the internal management system. pbb Group does not generate new business in the non-strategic Value Portfolio segment, and the financing volume of this segment declines continuously. The financing volume is a significant factor influencing the future earning power of pbb Group, since it represents the interest-bearing part of active customer business.

New business volume, as well as repayments, are the main drivers for the financing volume. However, new business volume provides only a limited basis from which to draw conclusions regarding financing volume amounts, since pbb Group's influence on repayments is limited. In addition, financing volumes are subject to foreign exchange rate movements beyond pbb Group's sphere of influence.

Reconciliation Statements

RETURN ON EQUITY BEFORE TAX AND AFTER TAX

Return on equity reconciliation 1 January to 30 June 2017

in € million	1.1.2017	31.3.2017	30.6.2017
Equity	2,799	2,810	2,740
Less revaluation reserve	-8	20	3
Equity excluding revaluation reserve	2,791	2,830	2,743
Calculation			1.1.-30.6.2017
Annualised profit or loss before tax			206
Annualised net income/loss			170
Average equity excluding revaluation reserve			2,788
Return on equity before tax (in %)			7.4
Return on equity after tax (in %)			6.1

Return on equity reconciliation 1 January to 30 June 2016

in € million	1.1.2016	31.3.2016	30.6.2016
Equity	2,746	2,754	2,687
Less revaluation reserve	-83	-66	-39
Equity excluding revaluation reserve	2,663	2,688	2,648
Calculation			1.1.-30.6.2016
Profit or loss before tax			174
Net income/loss			132
Average equity excluding revaluation reserve			2,666
Return on equity before tax (in %)			6.5
Return on equity after tax (in %)			4.9

COST-INCOME RATIO**Cost-income ratio calculation**

in € million	1.1.–30.6.2017	1.1.–30.6.2016
General and administrative expenses	102	94
Operating income	203	181
Cost-income ratio (in %)	50.2	51.9

COVERAGE RATIO**Coverage ratio calculation**

in € million	30.6.2017	31.12.2016
Specific allowances	80	86
Gross carrying amount of impaired loans and advances	276	336
Coverage ratio (in %)	29	26

AVERAGE FINANCING VOLUMES

Average financing volumes reconciliation

in € billion	1.1.2017	31.3.2017	30.6.2017	Semi-annual average 1.1.–30.6.2017
Financing volumes				
Real Estate Finance (REF)	24.1	24.1	24.4	24.2
Financing volumes Public Investment Finance (PIF)	7.4	7.7	7.6	7.6
Strategic financing volumes (REF and PIF)	31.5	31.8	32.0	31.8
Financing volumes Value Portfolio (VP)	15.8	15.5	14.6	15.3
Financing volumes total	47.3	47.3	46.6	47.1

in € billion	1.1.2016	31.3.2016	30.6.2016	Semi-annual average 1.1.–30.6.2016
Financing volumes				
Real Estate Finance (REF)	24.0	24.1	24.0	24.0
Financing volumes Public Investment Finance (PIF)	7.3	7.3	7.3	7.3
Strategic financing volumes (REF and PIF)	31.3	31.4	31.3	31.3
Financing volumes Value Portfolio (VP)	18.7	17.9	17.4	18.0
Financing volumes total	50.0	49.3	48.7	49.3

Imprint

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