

Alternative  
Performance Measures  
As of 30 June 2018

Deutsche Pfandbriefbank Group



DEUTSCHE  
PFANDBRIEFBANK

# Contents

## **03 Definitions and Usefulness**

---

- 03 Return on equity
- 04 Cost-income ratio
- 05 Financing volumes

## **06 Reconciliation Statements**

---

- 06 Return on equity before tax and after tax
- 07 Cost-income ratio
- 07 Average financing volumes

The consolidated interim financial statements as at 30 June 2018 are based on the International Financial Reporting Standards (IFRS) as adopted in European law by the European Commission as part of its endorsement process.

## Definitions and Usefulness

### RETURN ON EQUITY

#### Definition

Return on equity <small>before tax</small>	=	$\frac{\text{profit or loss before tax (during the course of the year annualised)} \\ \text{less accrued AT1-coupon}}{\text{average equity excluding accumulated other comprehensive income (OCI) \\ from cash flow hedge accounting, financial assets at fair value through OCI \\ (IAS 39: AfS reserve) and additional equity instruments (AT1 capital)}}$
Return on equity <small>after tax</small>	=	$\frac{\text{net income/loss (during the course of the year annualised)} \\ \text{less accrued AT1-coupon after tax}}{\text{average equity excluding accumulated OCI from cash flow hedge accounting, \\ financial assets at fair value through OCI (IAS 39: AfS reserve) and AT1 capital}}$

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 accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital is the arithmetic mean based on the amount at the beginning of the year and the amounts as disclosed at the quarterly reporting dates of the current financial year. Equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital comprises the following items: subscribed capital, additional paid-in capital, retained earnings, consolidated profit and OCI from pension commitments.

## 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 accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital. 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

$$\text{Cost-income ratio} = \frac{\text{general and administrative expenses and net income from write-downs and write-ups on non-financial assets}}{\text{operating income}}$$

Operating income comprises the sum of net interest income, net fee and commission income, net income from fair value measurement, net income from realisations, net income from hedge accounting and net other 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, net income from write-downs and write-ups on non-financial assets 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.

## 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 “Financial assets at fair value through profit or loss”, “Financial assets at fair value through other comprehensive income” and “Financial assets at amortised cost after credit loss allowances”.

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 2018

in € million (if not otherwise stated)	1.1.2018	31.3.2018	30.6.2018
Equity	2,967	2,996	3,195
Less accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital	- 121	- 108	- 392
Equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital	2,846	2,888	2,803
<b>Calculation</b>			<b>1.1.-30.6.2018</b>
Annualised profit or loss before tax less accrued AT1-coupon			233
Annualised net income/loss less accrued AT1-coupon after tax			190
Average equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital			2,846
Return on equity before tax (in %)			8.2
Return on equity after tax (in %)			6.7

### Return on equity reconciliation 1 January to 30 June 2017

in € million (if not otherwise stated)	1.1.2017	31.3.2017	30.6.2017
Equity	2,814	2,825	2,755
Less accumulated OCI from cash flow hedge accounting and AfS reserve	- 8	20	3
Equity excluding accumulated OCI from cash flow hedge accounting and AfS reserve	2,806	2,845	2,758
<b>Calculation</b>			<b>1.1.-30.6.2017</b>
Annualised profit or loss before tax			206
Annualised net income/loss			170
Average equity excluding accumulated OCI from cash flow hedge accounting and AfS reserve			2,803
Return on equity before tax (in %)			7.4
Return on equity after tax (in %)			6.1

## COST-INCOME RATIO

### Cost-income ratio calculation

in € million (if not otherwise stated)	1.1.–30.6.2018	1.1.–30.6.2017
General and administrative expenses and net income from write-downs and write-ups of non-financial assets	95	100
Operating income	232	228
<b>Cost-income ratio (in %)</b>	<b>40.9</b>	<b>43.9</b>

## AVERAGE FINANCING VOLUMES

### Average financing volumes reconciliation

in € billion	1.1.2018	31.3.2018	30.6.2018	Semi-annual average 1.1.–30.6.2018
Financing volumes Real Estate Finance (REF)	24.9	25.7	25.7	25.4
Financing volumes Public Investment Finance (PIF)	7.0	7.0	6.7	6.9
<b>Strategic financing volumes (REF and PIF)</b>	<b>31.9</b>	<b>32.7</b>	<b>32.4</b>	<b>32.3</b>
Financing volumes Value Portfolio (VP)	13.8	13.6	13.5	13.6
<b>Financing volumes total</b>	<b>45.7</b>	<b>46.3</b>	<b>45.9</b>	<b>46.0</b>

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
<b>Strategic financing volumes (REF and PIF)</b>	<b>31.5</b>	<b>31.8</b>	<b>32.0</b>	<b>31.8</b>
Financing volumes Value Portfolio (VP)	15.8	15.5	14.6	15.3
<b>Financing volumes total</b>	<b>47.3</b>	<b>47.3</b>	<b>46.6</b>	<b>47.1</b>

## **Imprint**

Deutsche Pfandbriefbank AG (publisher)  
Freisinger Strasse 5  
85716 Unterschleissheim  
Germany

T +49 (0)89 2880-0  
F +49 (0)89 2880-10319  
info@pfandbriefbank.com  
www.pfandbriefbank.com