

Press release

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Strong operating results for pbb in 2014 – results burdened by valuation adjustment on receivables covered by public letter of indemnity

- Conservative valuation adjustment reduces pre-tax profit for 2014 from € 174 million to € 54 million
- Significant increases in new business (+24%) and net interest income (+32%)
- Strategic portfolios have grown, with a further increase in margins on existing business
- CET1 ratio under fully phased-in Basel III at 13.5%

Munich, 9 March 2015 – pbb Deutsche Pfandbriefbank generated € 54 million in pre-tax profit during the 2014 financial year (based on preliminary, unaudited consolidated figures, in accordance with IFRS). Income was burdened heavily by a € 120 million value adjustment for debt securities issued by wind-down entity Heta Asset Resolution AG ("Heta"), which are covered by a letter of indemnity issued by the Austrian federal state of Carinthia. Without this extraordinary effect, pre-tax profit for 2014 – a financial year characterised by a strong operating performance – would have amounted to € 174 million. The previous year's figure of € 165 million had included positive one-off effects in the amount of € 37 million. Net interest income and new business (including extensions by more than one year) improved significantly in 2014. Net interest income showed a 32% increase, to € 421 million (2013: € 319 million), and new business rose by 24% to a new all-time high of € 10.2 billion (2013: € 8.2 billion). Against this background, the bank's strategic portfolios continued to grow, whilst achieving increased margins on existing business. General administrative expenses were reduced by 20%, to € 251 million (2013: € 312 million).

pbb is aiming to slightly exceed the new business level generated in 2014 **in the 2015 financial year**. Given the development in new business, pbb aims at a slight increase in the nominal volumes of the strategic portfolios held in Real Estate Finance and Public Investment Finance. The non-strategic Value Portfolio continues to run off. Against this background, pbb is aiming to further expand its average total portfolio margin.

Andreas Arndt, Co-CEO and CFO at pbb Deutsche Pfandbriefbank, says: "pbb significantly improved its operating profitability in 2014 and thus continued its successful track record. The value adjustment for receivables which are covered by a governmental letter of indemnity was recognised applying conservative standards. We are determined to pursue all possible legal channels. pbb has gained the earnings power and reserves necessary to deal with such situations. The bank continues its successful development."

At € 9.0 billion (2013: € 7.0 billion), pbb's Real Estate Finance segment accounted for the majority of **new business** (including extensions by more than one year). Public Investment Finance contributed € 1.2 billion, stable year-on-year. Germany was once again the bank's most important market in Real Estate Finance: pbb originated 46% of its new business there, followed by France (19%), the United Kingdom (15%), Central and Eastern Europe (8%) and the Nordic countries (7%). The risk/return profile of new commitments has remained solid at 64%, the loan-to-value (LTV) ratio for new exposures was slightly higher year-on-year (2013: 61%), whilst LTV for the entire Real Estate Finance portfolio decreased to 62% (2013: 64%).

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New business in pbb's second business segment, Public Investment Finance, was originated predominantly in France (44%) and Germany (43%), followed by the Nordic countries (7%).

Thomas Köntgen, Co-CEO of pbb Deutsche Pfandbriefbank, said: "Our focus lies on the big European markets, where we are well-positioned to compete, and we support our clients in cross-border transactions. By significantly increasing new business for the second consecutive year, we further strengthened our position as one of the leading providers for commercial real estate and public investment financing, whilst maintaining our conservative risk policy."

pbb raised € 6.0 billion (2013: € 7.7 billion) in **long-term funding** during 2014, due to the optimisation of its very good liquidity position. Mortgage Pfandbriefe accounted for € 3.6 billion (2013: € 3.2 billion), with € 0.3 billion (2013: € 1.2 billion) in Public Sector Pfandbriefe. In addition, unsecured funding was raised in an amount of € 2.1 billion (2013: € 3.2 billion). The average maturity across all products increased from approximately 6.2 years to approximately 7.1 years. Thanks to narrower spreads, the bank reduced its funding costs considerably. With a total outstanding volume of around € 36 billion, pbb is the biggest Pfandbrief issuer.

Income statement (in accordance with IFRS) for the 2014 financial year

pbb's receivables portfolio against Heta has a nominal amount of € 395 million. pbb has made value adjustments to this portfolio in its 2014 financial statements, against the background of a moratorium ordered by FMA, the Austrian financial markets regulatory authority, and statements made by the Austrian Finance Minister concerning support for the federal state of Carinthia. Heta is a wind-down entity owned by the Republic of Austria. pbb is currently reviewing the pursuit of all legal channels in order to get all of its claims satisfied. In pbb's 2014 income statement, the € 120 million value adjustment is reported in net income from financial instruments, loan loss provisions and the net trading result items.

Net interest income, which is pbb's single most important source of income, rose markedly stronger in 2014 than other income components: at € 421 million, net interest income increased by 32% year-on-year (2013: € 319 million). The increase was driven by strong, higher-margin new business, which replaced expiring exposures with lower margins. Prepayment fees also had a positive impact on net interest income. **Net fee and commission income** totalled € 1 million (2013: € 9 million).

Net additions to **loan loss provisions** amounted to € 21 million in 2014. Excluding provisions for a promissory note from Heta, this figure was € 13 million (2013: € 8 million). Loan loss provisions remained at a low level, underscoring pbb's strict risk management approach and reflecting the good shape of commercial real estate markets.

General administrative expenses of € 312 million for 2013 were cut by 20% or € 61 million, to € 251 million in 2014. The **decline** was mainly attributable to three factors: the termination of servicing for FMS Wertmanagement at the end of the third quarter of 2013, size adjustments from pbb's evolution into a specialised Pfandbriefbank, and

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lower consulting and IT expenses. Despite these reductions in expenses, the cost/income ratio rose to 77% as the value adjustment burdened net income from financial investments. Excluding this effect, the cost/income ratio would have come down to 57% (2013: 65%).

Net other operating income/expenses decreased to € 14 million during the 2014 financial year (2013: € 100 million). The decline was mainly attributable to the scheduled termination of servicing for FMS Wertmanagement at the end of September 2013: in the previous year, this activity had generated income of € 60 million.

The **net trading income** totalled –€ 30 million. Effects from the re-measurement of derivatives, incorporating bilateral credit value adjustments (bCVA, which reflects the default risks of the respective counterparties as well as pbb Group's own default risk), totalled –€ 12 million (2013: € 7 million). The pull-to-par effect of derivatives also had a negative impact, as did lower market interest rate levels in the long-term maturity ranges. The value adjustment on the Heta exposure accounted for –€ 3 million.

Out of the € 120 million in value adjustment on the debt securities, € 109 million was reported in **net income from financial investments**, resulting in a loss of € 77 million in this item (2013: profit of € 96 million). A gain of € 21 million was recognised upon deconsolidation of the DEPFA Finance N.V. subsidiary, as part of the disentanglement of pbb from its former sister company DEPFA. Comparability with the previous year is limited as the previous year's figure included € 92 million in income from the sale of a restructured property.

Total assets (in accordance with IFRS)

pbb Group's **consolidated total assets** (in accordance with IFRS) as at year-end 2014 totalled € 75.5 billion (31 Dec 2013: € 74.6 billion). Growth of the Group's strategic portfolios of € 2.2 billion also contributed to this increase. The nominal volume of the strategic Real Estate Finance portfolio rose from € 20.4 billion to € 21.8 billion, the strategic portfolio in the Public Investment Finance segment grew from € 7.2 billion to € 8.0 billion. At the same time, the nominal volume of the non-strategic Value Portfolio declined, as planned, by a further € 2.3 billion, to € 21.3 billion (31 Dec 2013: € 23.6 billion).

Regulatory capital ratios pursuant to Basel III (IRBA)

Pro-forma¹ capital ratios – which pbb calculated in accordance with Basel III for the first time in the year under review – continued to improve, reflecting lower risk-weighted assets of € 15.5 billion (31 Dec 2013: € 18.1 billion). The ratios already incorporate full-year results for 2014.

¹ Under the waiver option pursuant to section 2a of the German Banking Act ("KWG" – until 31 December 2013) and Article 7 of the EU Capital Requirements Regulation ("CRR" – from 1 January 2014), pbb is exempted from determining own funds and tier 1 ratios at a single-entity level. The pbb Group discloses these ratios on a voluntary basis.

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- As at 31 December 2014, the CET1 ratio was 21.7%, up 3.2 percentage points year-on-year. Under fully phased-in Basel III, the CET1 ratio was 13.5%.
- The Tier 1 ratio rose from 19.7% at year-end 2013 to 23.0% at year-end 2014 (fully phased-in: 19.9%).
- The own funds ratio stood at 26.1% at year-end 2014, up from 23.2% the year before (fully phased-in: 22.1%).

The fully phased-in CET1 ratio does not incorporate the € 1 billion silent participation from the German Financial Markets Stabilisation Fund ("FMS"), which pbb intends to repay in the course of its reprivatisation. Thus, even without the silent participation, pbb is well capitalised.

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Consolidated income statement Deutsche Pfandbriefbank Group

(preliminary, unaudited figures in accordance with IFRS – € million)

	2013	2014	2014 prior to write-down ¹⁾
Operating income	482	326	438
<i>Net interest and similar income</i>	319	421	421
<i>Net fee and commission income</i>	9	1	1
<i>Net trading income</i>	-51	-30	-27
<i>Net income from financial investments</i>	96	-77	32
<i>Net income from hedging relationships</i>	9	-3	-3
<i>Net other operating income/expenses</i>	100	14	14
Loan loss provisions	-8	-21	-13
General and administrative expenses	-312	-251	-251
Net miscellaneous income/expenses	3	0	0
Profit or loss before tax	165	54	174

- 1) Excluding effects resulting from the write-down on the portfolio of receivables against Heta Asset Resolution AG



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