PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

Press release

DEUTSCHE PFANDBRIEFBANK

pbb increases profit and new business in the third quarter

- Nine-month pre-tax profit up 30%, to €165 million
- Full-year expectation for 2015 increased
- New business volume markedly exceeds the strong level achieved in the same period of the previous year – Q3 net interest income weaker due to prepayments and special factors
- Arndt: Operating performance indicates good full-year results for 2015 – with pbb maintaining its conservative risk profile, and despite persistently intense competition

Munich, 12 November 2015 – During the third quarter of 2015, pbb Deutsche Pfandbriefbank increased consolidated pre-tax profit (in accordance with IFRS) to €53 million, up 20% (Q3 2014: €44 million). Pre-tax profit of €165 million (9m 2014: €127 million) for the first nine months of the year is already close to the full-year expectation. The aggregate of net interest income and net fee and commission income rose by 11% during the first nine-months, to €336 million. In the third quarter, the figure was lower, however (€98 million; Q3 2014: € 108 million – 9m 2014: €303 million), due to prepayments and early loan extensions as well as special factors. In pbb's strategic loan book, releases of loan loss provisions once again exceeded new provisions recognised. General administrative expenses for the first three quarters were down 20% year-on-year, to €150 million (9m2014: €188 million). New business was strong, rising 27% to €8.9 billion (9m 2014: €7.0 billion), including extensions for more than one year. Against this background, pbb has raised its expectations for pre-tax profit 2015: the Bank now anticipates a more pronounced positive trend than its original expectation of a slight increase, compared to the reference value of €174 million.

Andreas Arndt, pbb's co-CEO und CFO, said: "We believe that we will exceed our original expectation for results in the current financial year. Full-year results will be determined by our good origination performance and by further cost reductions compared to the previous year. Results are also clearly supported by the persistently low provisioning requirements. Despite significant headwinds, we were able to stabilise our new business margins, whilst adhering to our conservative risk profile – which we will adhere to, further expanding our European market position. However, intense competition will clearly prevail beyond 2015, with margins set to remain under significant pressure."

At €7.9 billion (9m 2014: €6.1 billion), pbb's Real Estate Finance segment accounted for the majority of total **new business** of €8.9 billion (including extensions for more than one year) for the first nine months of the year. Public Investment Finance contributed €1.0 billion (9m 2014: €0.9 billion). In a market environment characterised by strong competitive pressures, the Bank originated 45% of new Real Estate Finance business in its German home market, followed by the United Kingdom (17%) and the Nordic countries (13%). During the course of the year, average loan-to-value ratios declined by one percentage point, compared to the previous year, to 63%. In Public Investment Finance, 60% of new business originated was accounted for in France, 30% in Germany, and 10% in Spain.

Deutsche Pfandbriefbank AG
Communications
Freisinger Strasse 5
85716 Unterschleissheim, Germany

During the first nine months of the year, pbb raised **long-term funding** of €2.9 billion (9m 2014: €5.6 billion), with slightly more than half being issued in senior unsecured form (€1.7 billion; 9m 2014: €1.6 billion); Pfandbriefe contributed just under €1.3 billion (9m 2014: €3.9 billion). Prepayments on the asset side and adequate liquidity allowed for a reduction in covered funding. The Bank further expanded deposit-taking via "pbb direkt", offering overnight and time deposit investments for private investors, raising the volume of deposits to €2.3 billion as at 30 September 2015 (31 December 2014: €1.5 billion).

Consolidated income statement (IFRS, unaudited)

Looking at the third quarter of 2015 in isolation, net interest income of €95 million was thus lower than the previous year's figure of €108 million. For the first nine months of the year, however, net interest income rose by approximately 7%, to €324 million (9m 2014: €303 million), largely driven by an increase in the average strategic portfolio volumes of approximately 10%, to €30.1 billion (9m 2014: €27.3 billion). The high level of new business originated contributed to this development: whilst new business margins were lower compared to 2014, they were largely stable throughout 2015 year-to-date. The first nine months of the current year (as well as the previous year) benefited from one-off effects and prepayment fees, to a roughly equal extent. Net fee and commission income for the third quarter stood at €3 million (Q3 2014: €0 million); the figure for the first nine months of the year was €12 million (9m2014: €0 million).

The Bank released €3 million in loan loss provisions in the third quarter of 2015 (Q3 2014: release of €1 million), bringing the net release of loan loss provisions for the first nine months to €8 million (9m 2014: net addition of €-1 million). Net additions to specific allowances of €-7 million (9m 2014: €-14 million) were offset by net releases of portfolio-based valuation allowances in the amount of €13 million (9m 2014: €8 million). At €-6 million recognised during the first quarter of 2015, specific allowances were almost exclusively attributable to a promissory note loan to Heta Asset Resolution AG (Heta) reported under loans and advances to customers.

Reflecting pbb's strict cost discipline and continued focus on its core business activities, general and administrative expenses were down significantly in the third quarter of 2015, to €52 million (Q3 2014: €64 million). On a nine-month comparison, general and administrative expenses were down 20%, to €150 million (9m 2014: €188 million), and the cost/income ratio decline by around 10 percentage points, to 50% (9m 2014: 59.7%). pbb reduced non-personnel expenses from €107 million to €66 million, primarily due to lower IT and consultancy expenses. Personnel expenses increased slightly, given higher net expenses for retirement benefit plans, due to the low interest rate environment, whilst average staffing levels were virtually unchanged.

Net income from financial investments totalled €5 million during the third quarter (Q3 2014: €22 million). The figure for the first nine months of the year (€-32 million; 9m 2014: €23 million) was burdened significantly by €-73 million in additional valuation adjustments on the securities issued by Heta, recognised during the first quarter of 2015. Income from the disposal of securities – predominantly from the non-strategic Value Portfolio – partially offset these charges.

Net trading income was balanced during the third quarter (Q3 2014: €-3 million); the nine-month figure was €7 million (9m 2014: €-21 million). Net income from hedging relationships totalled €7 million for the third quarter and €9 million for the first nine months of the year (Q3 2014: €1 million; 9m 2014: €-5 million).

Net other operating income/expenses stood at €-12 million for the third quarter (Q3 2014: €-16 million); the net figure for the first nine months of 2015 was €-20 million (9m 2014: €15 million). The nine-month net figure was burdened by the bank levy, and by provisions for legal risks, offset by pre-tax profit from the sale of a property during the first quarter.

Profit after taxes totalled €53 million for the third quarter (Q3 2014: €34 million); for the first nine months of the year, it was €141 million (9m 2014: €108 million). Return on equity after taxes rose to 5.8% (9m 2014: 4.2%).

For the fourth quarter of 2015, pbb expects net interest and commission income to rise again; risk costs are expected to remain at a low level. Absent any potential positive counter-effects, the customary pull-to-par effect will burden the result from financial instruments. Costs are being estimated using conservative assumptions.

Total assets and regulatory indicators

Consolidated total assets of the pbb Group amounted to €67.1 billion at the end of the third quarter, compared to €74.9 billion at the 2014 year-end. Besides market-induced effects due to interest rate levels, the decline reflected a reduced securities portfolio due to disposals, loan maturities and early loan repayments.

The CET1 ratio as at 30 September 2015 stood at 17.0% (31 December 2014: 21.7%); the own funds ratio was 21.4% (31 December 2014: 26.1%). The fully-phased in CET1 ratio was 16.1% (31 December 2014: 13.5%); the own funds ratio was 17.9% (31 December 2014: 22.1%). Risk-weighted assets declined from €15.5 billion at the end of 2014 to €13.8 billion.

pbb consolidates rating mandates for Pfandbrief issues – Moody's raises Mortgage Pfandbrief rating to "Aa1"

Following the consolidation of its bank ratings, pbb Deutsche Pfandbriefbank (pbb) now also consolidates its Pfandbrief ratings. Furthermore, pbb has strengthened the ratings of its Mortgage Pfandbriefe. pbb will continue to retain Moody's Investors Service for both Pfandbrief programmes, whereas the corresponding mandate for Standard & Poor's was terminated. Based on the existing stable "Aa2" rating and pbb's voluntary contractual commitment to maintain overcollateralization for its Mortgage Pfandbrief issues, over and above the legal requirements, Moody's has raised the rating for pbb's Mortgage Pfandbrief issues by one notch, to "Aa1" – in line with pbb's Public Sector Pfandbriefe. pbb is the largest Pfandbrief issuer by outstanding issue size.

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Consolidated Income Statement of pbb Group (IFRS, € million)

	2014				2015			
	Q1	Q2	Q3	9m	Q1	Q2	Q3	9m
Operating income	89	114	112	315	93	109	98	300
Net interest and similar income	89	106	108	303	113	116	95	324
Net fee and commission income	-	-	-	-	7	2	3	12
Net trading income	-9	-9	-3	-21	5	2	-	7
Net income from financial investments	-1	2	22	23	-20	-17	5	-32
Net income from hedging relationships	-3	-3	1	-5	-1	3	7	9
Net other operating income/expenses	13	18	-16	15	-11	3	-12	-20
Loan loss provisions	5	-7	1	-1	4	1	3	8
General and administrative expenses	-62	-62	-64	-188	-48	-50	-52	-150
Net miscellaneous income/expenses	6	-	-5	1	2	1	4	7
Pre-tax profit/loss	38	45	44	127	51	61	53	165

Overview of the pbb Group

	9m 2014	9m 2015
Key financial indicators		
Basic and diluted earnings per share (€)	0.80	1.05
Cost/income ratio (%)	59.7	50.0
Return on equity before taxes[1)] (%)	4.9	6.8
Return on equity after taxes[1)] (%)	4.2	5.8
	31 Dec 2014	**30 Sep 2015**
Balance sheet figures		
Equity [1)] (excluding revaluation reserve) (€ bn)	3.4	2.6
Equity[1)] (€ bn)	3.5	2.6
Regulatory indicators[2)]		
CET1 Ratio (fully phased in – %)	13.5	16.1
Own funds ratio (fully phased in[1)] – %)	22.1	17.9
Leverage Ratio (fully phased in[2)] – %)	4.6	3.6

1) For 2014, including the €1.0 billion silent partnership contribution by the German Financial Markets Stabilisation Fund (SoFFin) For 2015, the silent partnership contribution has only been taken into account until full repayment on 6 July 2015.
2) The Leverage Ratio is defined as the ratio between tier 1 capital and the relevant exposure according to the CRR.

Media contacts:
Walter Allwicher, +49 89 2880-28787, walter.allwicher@pfandbriefbank.com
Oliver Gruss, +49 89 2880-28781, oliver.gruss@pfandbriefbank.com