Media Release

DEUTSCHE PFANDBRIEFBANK

pbb's profit before taxes rises to €171 million after the third quarter of 2018

- Positive development of net interest income
- Increased risk provisioning
- Profit before taxes of between €205 million and €215 million projected for the full year 2018
- pbb remains cautious regarding the financial year 2019

Munich, 12 November 2018 – As announced on 8 November 2018, Deutsche Pfandbriefbank AG (pbb) generated consolidated profit before taxes of €171 million (consolidated, unaudited figures in accordance with IFRS) in the first nine months of 2018, outperforming the same period of the previous year by more than 10% (9m 2017: €154 million). This positive development was mainly driven by net interest and commission income, which increased significantly to €338 million (9m 2017: €304 million). At the same time, pbb further reduced general and administrative expenses to €136 million (9m 2017: €141 million). In addition, results benefited from income – generated in the second quarter of 2018 – from an additional conditional purchase price adjustment in connection with accepting a buy-back offer made for Heta Asset Resolution AG ("Heta") debt securities. Risk provisions increased to €-10 million (9m 2017: €-3 million), which was particularly due to additional provisions recognised for credit exposures in the UK shopping centre sub-segment.

On this basis, and in anticipation of solid fourth-quarter results, on 8 November pbb increased its guidance for the full year 2018 pre-tax profit from between €175 million and €195 million to between €205 million and €215 million. New business stood at €5.9 billion after the first nine months of the year, and pbb expects the annual volume to be at the lower end of the projected range of between €10 billion and €11 billion (in each case including extensions beyond one year).

CEO Andreas Arndt said: "Our solid net interest income, and the continued stability in general and administrative expenses, underline pbb's persistent strength in operating performance. Therefore, we have been able to improve our expectations again, to profit before taxes for the full year 2018 of between €205 million and €215 million. This guidance incorporates further risk provisions in the fourth quarter, as well as rising general and administrative expenses – but, just as importantly, stable income from our client business."

pbb remains cautious regarding the financial year 2019. The Bank assumes that the market and competitive environment in commercial real estate finance is set to become even more demanding in 2019. Moreover, pbb anticipates higher funding costs for its lending business, and wants to further invest into strategic initiatives and regulatory projects.

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FACTS AND FIGURES FOR THE THIRD QUARTER OF 2018
(consolidated, unaudited figures in accordance with IFRS)

1. New business

Commercial Real Estate Finance accounted for €5.5 billion of aggregate new business totalling €5.9 billion during the first nine months of the year (9m 2017: REF €6.9 billion in new business, including extensions beyond one year). pbb originated an additional €0.4 billion in new Public Investment Finance business (9m 201 /PIF: €0.6 billion).

Germany remained the biggest individual market for pbb's Real Estate Finance segment, accounting for a slightly lower share of 45%. pbb further expanded its US business, which accounted for a 14% share, during the period under review (9m 2017: 10%). In terms of property type, the main focus of new business was on office properties, whose share increased to 51% (9m 2017: 41%).

The average gross margin on new business in the REF segment stood at around 160 basis points during the first nine months of 2018, slightly below the figure for the same period of the previous year (9m 2017: >160 bp), yet still ahead of the level for the full year 2017.

2. Funding

During the first nine months of the current year, pbb raised new long-term funding of €4.5 billion (9m 2017: €5.3 billion). Pfandbriefe accounted for the lion's share of approximately €2.9 billion (9m 2017: €3.2 billion), with €1.3 billion placed in unsecured issues (9m 2017: €2.1 billion). Furthermore, pbb issued additional tier 1 capital (AT1 capital) in the amount of €0.3 billion in the second quarter. As in the past, pbb not only issued securities denominated in Euro, but also in Pound Sterling and Swedish Krona. Retail deposits currently account for some €3.1 billion (12/2017: €3.3 billion).

The spreads paid on secured and unsecured issues tightened significantly year-on-year, with spreads for Mortgage Pfandbrief issues down markedly to 3 bp (9m 2017: 17 bp), and spreads for unsecured issues falling to 46 bp (9m 2017: 77 bp).

3. Regulatory indicators

Regulatory indicators improved further as at 30 September 2018, compared to the 2017 year-end. Effects from the first-time application of IFRS 9 increased equity, whilst risk-weighted assets continued to decrease. The tier 1 ratio, as well as the own funds ratio, benefited additionally from issuance of additional tier 1 (AT 1) capital.

The CET1 ratio as at 30 September 2018 rose to 19.7% (31 Dec 2017: 17.6% – 2017 ratios 'fully loaded“), the Tier 1 ratio to 21.9% (31 Dec 2017: 17.6%), and the own funds ratio to 26.7% (31 Dec 2017: 22.2%). The Leverage Ratio increased to 5.3% (31 Dec 2017: 4.5%).

4. Income statement

Net interest income increased to €334 million (9m 2017: €298 million). The increase was due to lower *interest expenses*, which reflected maturities of higher-yielding liabilities, amongst other things. As in the same period of the previous year, pbb profited from floors in client business, given the negative interest rate environment.

At €32.3 billion, the average aggregate volume of *interest-bearing loans* in the strategic portfolios in the period under review exceeded the level of the previous year (9m 2017: €31.8 billion); the growth is entirely attributable to the commercial Real Estate Finance Portfolio which grew from €24.3 billion to €25.5 billion. The average volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy (€13.6 billion; 9m 2017: €15.0 billion).

The *average margin* of the total portfolio was stable, relative to the comparable period of the previous year.

Net fee and commission income from non-accruable fees amounted to €4 million (9m 2017: €6 million).

Net income from fair value measurement – comprising changes in the fair value of derivatives as well as non-derivative financial instruments which must be measured at fair value – stood at €2 million (9m 2017: €-4 million). Income resulted mainly from the measurement, and subsequent disposal, of the so-called Heta compensation claim(*Heta-Besserungsanspruch*). Expenses of €4 million were incurred in connection with the fair value measurement of a southern European security, the volatility of which increased throughout 2018. Furthermore, net income from fair value measurement was burdened by the 'pull-to-par' effect in connection with fair values of derivatives.

Net income from realisations of €23 million (9m 2017: €31 million) comprised early termination fees of €13 million (9m 2017: €21 million), fee realisations of €9 million (9m 2017: €8million), and redemption of liabilities of €1 million (9m 2017: €1 million).

Net income from hedge accounting of €-1 million (9m 2017: €0 million) was due to ineffective portions from portfolio-hedge relationships. pbb exercised the option available under IFRS 9, and continued to apply the hedge accounting rules of IAS 39.

Net other operating income/expenses declined to €-11 million (9m 2017: €5 million). The net figure comprised expenses from net new provisions recognised mainly for legal expenses and risks of €9 million (9m 2017: €13 million) and currency translation expenses in the amount of €2 million (9m 2017: €0 million). The result for the same period of the previous financial year benefited from income generated in connection with the sale of assets held in pbb’s Value Portfolio.

Net income from risk provisioning (€-10 million; 9m 2017: €-3 million) resulted mainly from net additions to stage 3 impairments in the amount of €20 million. These additions were caused by impairments of financings in the United Kingdom, in the shopping centres sub-market. These expenses were partly compensated by net reversals of stage 1 and 2 impairments in the amount of €10 million, which were due to holdings in the portfolio set to mature in the short term.

General and administrative expenses were reduced slightly, to €136 million (9m 2017: €141 million). While non-personnel expenses were lower, thanks to the successful conclusion of projects, personnel expenses remained almost constant. In the course of 2018, general and administrative expenses increased: this was due to higher IT costs, amongst other things. These were attributable to digitalisation projects, such as the introduction of the CAPVERIANT electronic platform for the intermediation of public loans, and the implementation of regulatory requirements.

Expenses from bank levies and similar dues (€23 million; 9m 2017: €26 million) comprised mainly expenses for the bank levy, taking into account pledged collateral amounting to 15% (€20 million; 9m 2017: €19 million). Furthermore, this line item comprised expenses of €3 million (9m 2017: €6 million) for deposit protection schemes. These expenses were lower than in the prior-year period, due to the change in the basis for calculation and the fact that pledged collateral of 30% was included for the first time.

Net income from write-downs and write-ups on non-financial assets (€-11 million; 9m 2017: €-11 million) resulted primarily from depreciation of property and equipment, and amortisation of intangible assets.

Income taxes (€-33 million; 9m 2017: €-28 million) resulted from an actual tax expense of €31 million (9m 2017: €33 million) and a deferred tax expense in the amount of €2 million (9m 2017: tax income of €5 million).

Profit after taxes amounted to €138 million, compared with €126 million for the same period of the previous year.

Consolidated Income Statement pbb Group (IFRS, € million)	**Q3 2017**	**9m 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**	**9m 2018**
Net interest income	102	298	107	113	114	334
Net fee and commission income	1	6	1	2	1	4
Net income from fair value measurement	-4	-4	-	4	-2	2
Net income from realisations	9	31	9	6	8	23
Net income from hedge accounting	-1	-	-1	-1	1	-1
Net other operating income/expenses	1	5	-4	-4	-3	-11
Operating income	**108**	**336**	**112**	**120**	**119**	**351**
Net income from risk provisioning	-3	-3	4	3	-17	-10
General and administrative expenses	-49	-141	-44	-44	-48	-136
Expenses from bank levies and similar dues	-2	-26	-21	-1	-1	-23
Net income from write-downs and write-ups on non-financial assets	-3	-11	-3	-4	-4	-11
Profit before taxes	**51**	**154**	**48**	**74**	**49**	**171**
Income taxes	-10	-28	-9	-14	-10	-33
Profit after taxes	**41**	**126**	**39**	**60**	**39**	**138**

Key financial indicators (%)	**Q3 2017**	**9m 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**	**9m 2018**
Cost/income ratio	48.1	45.2	42.0	40.0	43.7	41.9
Return on equity before taxes	7.4	7.4	6.7	10.0	6.9	7.6
Return on equity after taxes	5.9	6.0	5.4	8.1	5.5	6.2

Balance sheet figures (IFRS/€ bn)	**09/2017**	**09/2017**	**03/2018**	**06/2018**	**09/2018**	**09/2018**
Total assets	57.9	57.9	57.6	57.8	57.3	57.3
Equity	2.8	2.8	3.0	3.2	3.2	3.2
Total financing volume	46.0	46.0	46.3	45.9	45.7	45.7

Quarterly figures are unaudited, figures for the first half of the financial year are audited.

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