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Press Release

pbb posts significant increases in pre-tax profit and new business for the second quarter

- Pre-tax profit was up 45% year-on-year in the second quarter, to € 45 million- € 83 million for the first half of 2014 considerably above previous year's figure
- Net interest income continues to rise
- New business accelerates on a quarterly as well as on a six-month-basis compared to the previous year

Munich, 14 August 2014 – pbb Deutsche Pfandbriefbank once again significantly boosted results and new business during the second quarter. Pre-tax profit (in accordance with IFRS, and reviewed by external auditors) was up 45% year-on-year in the second quarter, to € 45 million (Q2 2013: € 31 million). Pre-tax profit for the first half of 2014 of € 83 million (H1 2013: € 60 million) was considerably above the previous year's figure and supports guidance for FY 2014 (pre-tax profit of at least € 140 million). The solid results were characterised in particular by increasing portfolio profitability, a level of loan loss provisions that has remained low, and considerably reduced general and administrative expenses. With € 2.7 billion in the second quarter (Q2 2013: € 1.8 billion), new business (including extensions beyond one year) matched the volume of last years´ typically strong fourth quarters.

Andreas Arndt, Chief Financial Officer at pbb Deutsche Pfandbriefbank, said: „pbb has once again demonstrated its earnings power, while the strong new business underscores the bank's role as one of Europe's leading institutions in real estate finance and public investment finance.“

Of the **new business** (including extensions beyond one year) during the first half-year of € 4.3 billion (H1 2013: € 3.4 billion), € 3.7 billion was attributable to Real Estate Finance (H1 2013: € 2.8 billion); € 0.6 billion was originated in Public Investment Finance (H1 2013: € 0.6 billion). Despite the competitive environment, the bank continued to achieve attractive margins, and was still able to meet highest internal risk standards. Boosted by strong new business, the bank’s strategic Real Estate Finance portfolio grew by 6% in the first six months of the year, to € 23.5 billion, while the strategic Public Investment Finance portfolio increased by 4%, to € 8.7 billion (measured in terms of Exposure at Default). In the Real Estate Finance business, just above 50% of pbb's new business was originated in Germany, followed by France (18%), Central and Eastern Europe (13%), and the United Kingdom and the Nordic countries (7% each).

Against the background of a comfortable level of liquidity, pbb has further optimised its funding mix. The total volume of new **long-term funding** raised in the first half of 2014 amounted to € 3.1 billion (H1 2013: € 5 billion). Of the aggregate amount, Pfandbrief issues accounted for € 2.1 billion (H1 2013: € 3 billion), with another € 1 billion (H1 2013: € 2 billion) placed in unsecured funding. The deposit volume at pbb direkt, pbb's online offer for overnight and term deposit investments for private investors, reached € 1.4 billion as at 30 June 2014 (31 December 2013: € 0.6 billion).

Deutsche Pfandbriefbank AG
Corporate Communications
Freisinger Strasse 5
85716 Unterschleissheim, Germany

Income statement (in accordance with IFRS, reviewed by external auditors)

pbb's **income statement** consists of the following major items:

pbb further increased its income from core business activities. **Net interest income** increased markedly, to € 106 million (Q2 2013: € 74 million) in the second quarter. Adjusted for one-off effects, net interest income increased from € 69 million in the second quarter of last year, to € 88 million. Net interest income totalled € 195 million for the first half of the year (H1 2013: € 153 million). This shows the increased portfolio profitability, where existing loans with lower margins are continuously being replaced with higher-margin new business. In addition, the results were affected by one-off effects, mainly in the form of pre-payment fees (H1 2014: € 20 million; H1 2013: € 15 million).

As in previous quarters, net additions to **loan loss provisions** remained at a low level (€ 7 million vs. € 3 million in Q2 2013). In the first half of the year, pbb was once again able to demonstrate high risk awareness and specific risk management skills. During the period, the bank recognised € 2 million additions to loan loss provisions (H1 2013: release of € 1 million).

General and administrative expenses declined, to € 62 million in the second quarter (Q2 2013: € 80 million), and to € 124 million for the half-year (H1 2013: € 156 million). This was mainly due to lower advisory and IT expenses as well as to the lower average headcount. Furthermore, no expenses were incurred in connection with servicing the FMS-WM portfolio in 2014.

Net other operating income/expenses declined in the second quarter, to € 18 million (Q2 2013: € 24 million), and to € 31 million for the half-year (H1 2013: € 56 million). The decline was mainly attributable to the termination of servicing for FMS-WM as at 30 September 2013, for which pbb now provides post-completion services to a limited extent only. This item now mainly consists of income from IT services provided to DEPFA, amounting to € 18 million in the first half of the year (H1 2013: € 20 million).

Net trading income of € -9 million (Q2 2013: € 10 million) primarily shows negative effects from the valuation of derivatives due to the ongoing decline in long-term interest rates. This effect is also reflected in net trading income for the first half of 2014 (€ -18 million; H1 2013: € -2 million).

Total assets (in accordance with IFRS)

Consolidated total assets of the pbb Group (in accordance with IFRS) increased from € 74.6 billion as at 31 December 2013 to € 77.8 billion as at 30 June 2014. The increase reflected the development of the strategic portfolio; it was also due to market-induced effects and to repo transactions concluded but not yet invested. pbb's balance sheet structure remains solid, with a well-balanced maturity profile.

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Media contacts:

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

Consolidated Income Statement of Deutsche Pfandbriefbank Group (IFRS, € million)

	Q2 2013	H1 2013	Q3 2013	Q4 2013	FY 2013	Q1 2014	Q2 2014	H1 2014
Operating income	113	214	155	113	482	**89**	**114**	**203**
Net interest and similar income	74	153	79	87	319	**89**	**106**	**195**
Net fee and commission income	1	2	3	4	9	**0**	**0**	**0**
Net trading income	10	-2	-51	2	-51	**-9**	**-9**	**-18**
Net income from financial investments	0	1	97	-2	96	**-1**	**2**	**1**
Net income from hedging relationships	4	4	3	2	9	**-3**	**-3**	**-6**
Net other operating income/expenses	24	56	24	20	100	**13**	**18**	**31**
Loan-loss provisions	-3	1	-9	0	-8	**5**	**-7**	**-2**
General and administrative expenses	-80	-156	-84	-72	-312	**-62**	**-62**	**-124**
Net miscellaneous income/expenses	1	1	0	2	3	**6**	**0**	**6**
Pre-tax profit	31	60	62	43	165	**38**	**45**	**83**