PUBLIC SECTOR FINANCE
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Press release

Strong start for pbb Deutsche Pfandbriefbank into the new year

- Pre-tax profit up 34% from Q1 2014, to € 51 million
- Strong year-on-year increase in new business volume in Q1, to € 2.8 billion

Munich, 19 May 2015 – pbb Deutsche Pfandbriefbank had a successful start into the 2015 financial year, with a significant increase in pre-tax profit (IFRS, unaudited), to € 51 million for the first quarter (Q1 2014: € 38 million). With this good result, pbb has absorbed a further € 79 million valuation adjustment – already reported in April – on receivables against Austrian wind-down institution Heta, which are guaranteed by the Austrian federal state of Carinthia. Positive one-off effects and the bank's good operating performance more than offset this extraordinary burden. Net interest income was up significantly, compared to the same quarter of the previous year, whilst general and administrative expenses were clearly lower year-on-year. Once again, pbb performed strongly in terms of new business, with a volume of € 2.8 billion (Q1 2014: € 1.6 billion) originated during the first quarter of 2015. The bank aims for a slight increase in new business volumes compared to 2014.

Andreas Arndt, Co-CEO and CFO of pbb Deutsche Pfandbriefbank, said: "pbb Deutsche Pfandbriefbank started 2015 with strong momentum. Good pre-tax profits and strong new business give us a tailwind for the 2015 financial year."

Commercial Real Estate Finance accounted for € 2.7 billion of the total € 2.8 billion in **new business** (including extensions by more than one year) during the first quarter. Almost half of new business (46%) was again originated in Germany, followed by the Nordic countries (19%), the United Kingdom (14%) and Spain (10%). The average loan-to-value ratio for new commitments improved slightly, to approximately 61% (full year 2014: 64%). Boosted by strong new business, the bank's strategic Real Estate Finance portfolio grew by a further 8% in the first three months of the year, to € 23.5 billion (31.12.2014: € 21.8 billion; measured in terms of financing volumes).

pbb raised approximately € 1.4 billion (Q1 2014: € 2.2 billion) in **long-term funding** during the first quarter of 2015, via Pfandbriefe and unsecured issues. Unsecured funding (comprising promissory notes and bearer bonds) with an average maturity of 4.6 years accounted for € 1.0 billion. New Pfandbrief issues had an average term of 8.9 years. Two years after its launch, deposit volumes at pbb direkt, pbb's online offer for overnight and time deposit investments for private investors, reached approx. € 1.8 billion.

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Rating mandates consolidated

pbb decided to consolidate its ratings: the rating mandate for Standard & Poor's will be continued for unsecured ratings as well as for Pfandbrief ratings. At the same time, pbb issued a new mandate to rating agency DBRS. In this way, pbb has implemented a suggestion in the EU Rating Regulation to extend the group of mandated rating agencies beyond the market leaders. pbb terminated Fitch Ratings' mandate for unsecured ratings, as well as the mandate for Moody's Investors Service.

Income statement (IFRS, unaudited) for Q1 2015

pbb's core business in Commercial Real Estate Finance and Public Investment Finance is lending, with income reported in **net interest income**: at € 113 million, net interest income showed a marked year-on-year increase (Q1 2014: € 89 million). This was primarily attributable to strong new business, which increased the average nominal volume of the strategic portfolio. Net interest income also benefited from income upon the sale of a promissory notes from the Value portfolio.

Loan loss provisions of € 4 million (net) were released (Q1 2014: € 5 million).

At € -48 million (Q1 2014: € -62 million), **general and administrative expenses** were markedly lower in the first quarter of this year. This reflects markedly lower non-personnel expenses, mainly due to lower IT costs, whereas personnel expenses were slightly higher, predominantly as a result of new hirings for origination units in the previous year.

Net other operating income/expenses was significantly impacted by the bank levy. In contrast to previous years, and in accordance with revised accounting rules, the full-year charge for 2015 was already recognised during the first quarter. The net figure declined to € -11 million (Q1 2014: € 13 million).

Net trading income amounted to € 5 million (Q1 2014: € -9 million), mainly reflecting positive valuation effects of currency and interest rate derivatives. Negative factors included pull-to-par-effects, as well as the subsequent measurement of derivatives, taking bilateral credit valuation adjustments into account. Expenses of € -3 million were incurred upon the close-out of derivative hedges related to the Heta exposure.

Net income from financial investments amounted to € -20 million for the first quarter (Q1 2014: € -1 million), including € 73 million in additional valuation adjustments on Heta securities. A part of these expenses was offset by income from the sale of a security.

Net income from hedging relationships totalled € -1 million (Q1 2014: € -3 million) due to permitted hedge ineffectiveness.

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

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015
Operating income	89	114	112	11	326	**93**
Net interest and similar income	89	106	108	118	421	**113**
Net fee and commission income	-	-	-	1	1	**7**
Net trading income	-9	-9	-3	-9	-30	**5**
Net income from financial investments	-1	2	22	-100	-77	**-20**
Net income from hedging relationships	-3	-3	1	2	-3	**-1**
Net other operating income/expenses	13	18	-16	-1	14	**-11**
Loan loss provisions	5	-7	1	-20	-21	**4**
General and administrative expenses	-62	-62	-64	-63	-251	**-48**
Net miscellaneous income/expenses	6	-	-5	-1	-	**2**
Profit or loss before tax	38	45	44	-73	54	**51**
Adjusted profit or loss before tax*	38	45	44	47	174	**133**

(* adjusted for the effects from the valuation adjustments on receivables from Austrian wind-down entity Heta Asset Resolution AG)

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