

Press release



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pbb maintains positive performance during the second quarter

- Profit before taxes rises to €61 million, compared to €45 million in the second quarter of 2014 - Half-year result of €112 million clearly exceeds the previous year's figure
- New business volume rises to €6 billion

Munich, 14 August 2015 – pbb, a leading European specialist bank for commercial real estate finance and public investment finance, maintained its positive business performance during the second quarter of 2015. Pre-tax profit (unaudited, consolidated figures in accordance with IFRS) was up 36% year-on-year, to €61 million (Q2 2014: €45 million). In the first half of 2015, pbb realised a profit before taxes of €112 million, which was also a significant improvement year-on-year (H1 2014: €83 million). Return on equity before taxes increased from 4.9% in the first half of 2014 to 6.5% in the period under review. pbb's profit after taxes was €88 million (H1 2014: €74 million); earnings per share stood at €0.65 after six months. In a competitive environment, pbb also boosted its new business during the first half of the year, to €6 billion (H1 2014: €4.3 billion). The results for the first six months of 2015 support the full-year guidance: pbb anticipates pre-tax profit slightly above the adjusted level for 2014 (€174 million).

Andreas Arndt, Co-CEO and CFO of pbb Deutsche Pfandbriefbank, said: "During the first half of 2015, pbb continued to markedly increase new business whilst maintaining its conservative risk profile. With further improved results, pbb has continued its stable operating performance of the past few years. We believe we are well on track for the full year 2015."

pbb increased its **new business** (including extensions for more than one year) in both strategic business segments: with total new business of €6 billion, it achieved the highest six-month figure since the bank's re-start in 2009. New business of €3.2 billion originated during the second quarter was also up from the previous year (Q2/2014: €2.7 billion). In the Real Estate Finance segment, pbb generated new business of €5.2 billion during the first half of the year (H1 2014: €3.7 billion) – in spite of competitive pressure and without sacrificing its strict risk criteria: for instance, the average loan-to-value ratio of 64% was in line with the level for the full year 2014. 45% of new business was originated in Germany, followed by the Nordic countries (19%) and the United Kingdom (14%). Whilst the increase in pbb's Public Investment Finance segment, to €0.8 billion in the first six months of the year, was moderate in absolute figures (H1 2014: €0.6 billion), new business in the second quarter (€0.6 billion) was considerably stronger than in the first. In Public Investment Finance, 61% of new business originated was accounted for in France, and 39% in Germany.

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Thanks to its unchanged, comfortable liquidity position and a marked reduction in total assets, pbb adjusted its **funding** activities accordingly, with a volume of €2.2 billion (H1 2014: €3.1 billion) in new long-term funding raised during the first half of 2015. Of the aggregate amount, Pfandbrief issues (with an average maturity of 17.4 years) accounted for approximately €0.7 billion (H1 2014: €22 billion/9.1 years), promissory note loans and bearer bonds accounted for €1.5 billion (with an average maturity of 4.4 years – H1 2014: €0.9 billion/5.4 years). Deposit volumes at pbb direkt, pbb's online offer for overnight and term deposits for private investors, have reached €2 billion. The majority of deposits are term deposits with an average term of more than 3 years.

Consolidated income statement (IFRS, pbb Group, unaudited)

Net interest income increased by €10 million during the second quarter, to €116 million (Q2 2014: € 106 million), bringing the figure for the first six months to €229 million (H1 2014: €195 million). The increase in the average strategic portfolio volume, from €28.4 billion at the end of 2014 to €30.8 billion as at 30 June 2015, contributed to higher net interest income. Net interest income during the first six months continued to be influenced by factors outside of originated lending business, such as the sale of promissory notes or prepayment fees: these factors generated additional interest income totalling €30 million during the first half-year (H1 2014: €20 million).

Thanks to a net release of **loan loss provisions**, amounting to €1 million for the second quarter and €5 million for the first half of 2015, provisioning was lower compared to the same periods of the previous year (Q2 2014: net addition of -€7 million; H1 2014: net addition of -€2 million). This development underscores pbb's conservative risk policy, but also reflects the favourable environment on real estate markets. Loan loss provisions include -€6 million in specific allowance, recognised in the first quarter, on a promissory note loan to Austrian HETA Asset Resolution AG ("Heta").

The marked decline in **general and administrative expenses**, to €50 million in the second quarter or €98 million for the first half of 2015 (Q2 2014: €62 million – H1 2014: €124 million) clearly shows pbb's consistent cost discipline. This was largely due to lower non-personnel expenses, mainly attributable to lower IT and consultancy expenses. The cost/income ratio thus improved by more than 12 percentage points compared with the first six months of 2014, to 48.5%.

Net other operating income/expenses was virtually balanced; it amounted to €3 million in the second quarter of 2015 (Q2 2014: €18 million). The net figure includes €39 million in pre-tax profit from the sale of a property; burdening factors included expenses for litigation provisions. The balance for the first half of the year was -€8 million (H1 2014: € 31 million), also including -€25 million in expenses for the German and European bank levies, covering expected charges for the full year.

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Net income from financial investments amounted to -€17 million for the second quarter (Q2 2014: €2 million). The net figure was burdened by the sale of a sub-portfolio from the non-strategic Value Portfolio segment. pbb sold securities with a nominal value of €0.8 billion in order to expedite the reduction in the Value Portfolio, thus freeing up regulatory capital for more profitable strategic new business. On the one hand this led to an expense of -€23 million – on the other hand it led to a very significant relief in terms of risk-weighted assets (RWA), in the amount of €0.5 billion. For the first half of the year, net income from financial investments amounted to -€37 million (H1 2014: €1 million); it was burdened significantly by -€73 million in additional valuation adjustments on the securities issued by Heta, recognised during the first quarter. These expenses were partly offset by income from the previously-planned disposal of securities.

Given a total tax expense of €24 million, pbb generated **profit after taxes** of €88 million (H1 2014: €74 million). Current taxes of €12 million were predominantly attributable to foreign taxes payable in connection with the sale of a restructured property. Deferred taxes accounted for the remainder of the total tax expense.

Total assets (in accordance with IFRS)

Consolidated total assets of the pbb Group (in accordance with IFRS) declined from €74.9 billion as at 31 December 2014 to €69.6 billion as at 30 June 2015. The decline was due especially to market-induced effects – notably, with regard to higher interest rates – as well as a reduced securities portfolio as a result of portfolio sales and maturities.

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

	2014			2015		
	Q1	Q2	H1	Q1	Q2	H1
Operating income	89	114	203	93	109	202
Net interest and similar income	89	106	195	113	116	229
Net fee and commission income	-	-	-	7	2	9
Net trading income	-9	-9	-18	5	2	7
Net income from financial investments	-1	2	1	-20	-17	-37
Net income from hedging relationships	-3	-3	-6	-1	3	2
Net other operating income/expenses	13	18	31	-11	3	-8
Loan loss provisions	5	-7	-2	4	1	5
General and administrative expenses	-62	-62	-124	-48	-50	-98
Net miscellaneous income/expenses	6	-	6	2	1	3
Pre-tax profit/loss	38	45	83	51	61	112

Overview of the pbb Group

	H1 2014	H1 2015
Key financial indicators		
Earnings per share (€)	0.55	0.65
Cost/income ratio (%)	61.1	48.5
Return on equity before taxes ¹⁾ (%)	4.9	6.5
Return on equity after taxes ¹⁾ (%)	4.3	5.1
	31 Dec 2014	30 June 2015
Balance sheet figures		
Equity	3.4	3.5
(excluding revaluation reserve) ¹⁾ (€ bn)		
Equity ¹⁾ (€ bn)	3.5	3.6
Regulatory indicators²⁾		
CET1 Ratio (fully phased in – %)	13.5	15.7
Own funds ratio (fully phased in – %) ¹⁾	22.1	25.1
Leverage Ratio (fully phased in ³⁾ – %)	4.6	4.9

- 1) Including the €1 billion silent partnership contribution from the German Financial Markets Stabilisation Fund (SoFFin), which was repaid on 6 July 2015.
- 2) Under the waiver option pursuant to section 2a of the KWG and Article 7 of the CRR, respectively, pbb was exempted from determining own funds and tier 1 ratios at a single-entity level during the reporting period. pbb Group discloses these ratios on a voluntary basis.
- 3) The Leverage Ratio is defined as the ratio between Tier 1 capital and the relevant exposure according to the CRR.