PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE PFANDBRIEFBANK

Press Release

pbb posts a marked profit increase in 2015, plans to distribute dividends of €0.43 per share

- Consolidated pre-tax profit (in accordance with IFRS) increases to €195 million
- New business grows to new record of €12 billion

Munich, 2 March 2016 – pbb Deutsche Pfandbriefbank significantly improved its performance for the 2015 financial year, posting the best annual results since its re-start in 2009. The bank boosted its consolidated pre-tax profit by 12%, to €195 million (based on unaudited and not yet approved consolidated financial statements in accordance with IFRS; 2014: €174 million, adjusted for €120 million in value adjustments for claims against Heta Asset Resolution AG "Heta"). Profit after taxes was €230 million (2014: €116 million, adjusted), due to the high level of deferred tax income, and hence €1.71 per share. New business (including extensions by more than one year) rose by 18%, reaching a new record high of €12.0 billion (2014: €10.2 billion). pbb succeeded in maintaining average gross new business margins throughout the year – albeit below the previous year's levels – whilst adhering to its strict risk standards.

Thanks to the good earnings development, the Management Board intends to propose to the Annual General Meeting on 13 May 2016 to pay a **dividend** of €0.43 per share for the 2015 financial year. Based on the pro-rata profit after taxes (in accordance with IFRS) for the period after the flotation, the proposed dividend is equivalent to a payout ratio of approximately 50%, and thus at the upper end of the communicated dividend policy.

For the **year 2016**, pbb anticipates pre-tax profit slightly below the good figure achieved in the previous year (€195 million). First-quarter results are likely to be somewhat weaker in comparison, as a result of the bank levy which is accounted for in the first quarter. The annual targets incorporate normalised loan loss provisions, equivalent to Expected Loss of 10-12 basis points on the strategic real estate financing portfolio. In comparison, loan loss provisions of €1 million (net) were released in 2015. Return on equity before tax was 6.2% in 2015, and is projected to be stable. New business volumes (including extensions by more than one year), which more than doubled over the past three years, are expected to remain at the high levels seen in 2015.

Andreas Arndt, pbb's co-CEO and CFO, said: "A key milestone for 2015 was pbb's privatisation, which we achieved through the flotation. At the same time, pbb generated its highest operating results yet in 2015. 2016 will present particular challenges, both in terms of regulation and the market environment. Nonetheless, we expect good pre-tax profits, which however are likely to be slightly lower than the very good figures posted in the previous year."

Looking ahead to the 2016 financial year, pbb plans to continue growing its core business, and to further optimise its processes. **Thomas Köntgen**, pbb's co-CEO and Treasurer, added: "We want to continue leveraging our structuring expertise for more complex – and hence, higher-margin – financings, without higher risk exposure. In addition, we plan to make careful adjustments to our product and country mix, to reflect a changing business environment, in line with our risk strategy. We want to generate additional income through a stronger focus on the syndication business, and on partial placements of financings. We also strive for broader diversification in terms of regions and products in our funding business."

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Facts and figures on the 2015 financial year

1. New business

New **Real Estate Finance** business (including extensions by more than one year) increased by 16% year-on-year, to a total of €10.4 billion. The number of transactions reached 180, up from 161 in the previous year. Germany, pbb's home market, was once again its most important market for Real Estate Finance business: the bank originated 47% of new business in its German home market, followed by the United Kingdom (18%), France and the Nordic countries (10% each), and finally Central and Eastern Europe (7%). The average loan-to-value ratio for new commitments was 63%, slightly down year-on-year (2014: 64%), underscoring the solidity of pbb's risk/return profile.

Public Investment Finance accounted for €1.6 billion in new business, up 33% against the previous year (2014: €1.2 billion). At 69%, the lion's share of the new business was posted in France, 22% in Germany, and 9% in Spain.

2. Funding

Early repayments on the assets side and an adequate liquidity position allowed for a reduction in funding activities. Long-term funding was down to €4.5 billion during the year under review (2014: € 6.0 billion).

Of the aggregate amount, **Mortgage Pfandbriefe** (with an average maturity of 15.7 years) accounted for €1.1 billion (2014: €3.6 billion), with €0.8 billion (2014: €0.3 billion) placed in **Public-Sector Pfandbriefe** (with an average maturity of 5.5 years).

Unsecured funding via promissory notes and bearer bonds rose to €2.6 billion (2014: €2.1 billion), with an average maturity of 4.2 years.

The number of customers and the volume of deposits taken by **pbb direkt**, pbb's online offer for overnight and time deposit investments for private investors, increased further: around 27,400 customers (2014: 18,800) have now invested an aggregate €2.6 billion (2014: €1.5 billion) with pbb direkt.

3. Consolidated income statement for the 2015 financial year
(based on unaudited and not yet approved consolidated financial statements in accordance with IFRS)

At €426 million, **net interest income** slightly exceeded the results of the previous year (2014: €421 million). The increase was driven by a rise in the average strategic portfolio volume, to €30.2 billion (2014: €27.5 billion), which benefited from the high volume of new business. Other positive effects included income from the sale of promissory notes and early termination fees. Fierce competition put pressure on lending margins, bringing them down year-on-year. However, they remained relatively stable throughout 2015. Higher funding costs also burdened the net figure.

Net fee and commission income of €14 million (2014: €1 million) included €5 million in fee income generated in connection with a financing, which has now been repaid in full, and from intermediation fees from syndications, for example.

Loan loss provisions were virtually neutral in the 2015 financial year (€1 million net-release; 2014: €21 million net-addition). They comprised net additions to specific allowances (€16 million; 2014: €32 million), net release of portfolio-based allowances (€13 million; 2014: €5 million), recoveries on written-off loans and advances, recognised in income (€3 million; 2014: €6 million), as well as income from the reversal of allowances for contingent liabilities and other commitments (€1 million; 2014: € nil). Specific allowances related only to a few exposures in Commercial Real Estate Finance (net addition of €10 million) and a promissory note loan to Heta, shown under loans and advances to customers (addition of €6 million). As in the previous year, no specific allowances were recognised on Public Investment Finance exposures.

Reflecting pbb's strict cost discipline, **general and administrative expenses** declined further, to €207 million (2014: €251 million). The decline in non-personnel expenses – from €141 million to €95 million, mainly due to lower IT and consultancy expenses – clearly exceeded a slight increase in personnel expenses, which was due to higher net expenses for retirement benefit plans, caused by the low interest rate environment.

Net other operating income/expenses (€-34 million; 2014: €14 million) was burdened by €18 million in expenses for the bank levy, including the effect of cash collateral provided. Pre-tax gain from the disposal of a foreclosed property in Japan resulted in positive effects of €39 million. Currency translation effects generated additional income of €5 million (2014: €4 million). Further income was attributable to rental income generated from acquired real estate, and from cost allocation to Hypo Real Estate Holding AG.

Net trading income of €15 million (2014: €-30 million) strongly benefited from positive valuation effects of derivatives, based on interest rate and exchange rate fluctuations (€20 million; 2014: €3 million). Additional income was generated by the subsequent measurement of derivatives, taking into account the bilateral credit value adjustment (CVA) of €20 million (2014: expenses of €12 million). However, a change in estimates used to determine CVA for client derivatives led to €6 million in expenses, as did the so-called 'pull-to-par' effect (€19 million; 2014: €21 million).

Net income from financial investments amounted to €-32 million (2014: €-77million), burdened by €73 million (2014: €109 million) from additional valuation adjustments on securities issued by Heta. The sale of a security with a nominal value of GBP 200 million generated income in the equivalent of €55 million. Further disposals of securities from the AfS and LaR categories led to net expenses of €15 million (2014: net income of €27 million).

Profit after taxes was €230 million in 2015, and thus €35 million above pre-tax profits. Repayment of the silent participation by the German Financial Markets Stabilisation Fund (FMS) in July 2015 represented a tax expense, and was therefore deductible – which is why pbb did not pay corporation tax in Germany in 2015. The bank paid €21 million in prepaid trade tax and foreign taxes, and recognised €27 million in tax provisions for past periods. This compares with a positive effect from non-cash deferred taxes of €83 million.

4. **Total assets** (based on unaudited and not yet approved consolidated financial statements in accordance with IFRS)

pbb Group's consolidated total assets amounted to €66.8 billion at the reporting date, a decrease of 11% on the previous year (31 Dec 2014: €74.9 billion) caused by market-induced effects, maturities, and active reduction of the non-strategic portfolio.

5. **Regulatory capital ratios** (in accordance with Basel III, IRBA, based on unaudited and not yet approved consolidated financial statements[1])

pbb is well-capitalised, and therefore well-prepared for further growth, but also for stricter regulatory requirements. These would likely impact risk weights – perhaps significantly so – and hence, the bank's capital ratios. Even though at present, the exact consequences cannot be estimated yet, thanks to its good prevailing capital ratios, pbb believes it is well-positioned for any stricter regulations ahead.

The **CET 1 ratio** rose to 18.2% at year-end 2015 (31 Dec 2014: 13.8%). The increase was mainly due to a marked reduction in risk-weighted assets, from €15.2 billion to €13.4 billion, which was largely attributable to maturities in, and the reduction of, the Value Portfolio, and to improved ratings. The reduction in tier 1 and own funds ratios was affected by the redemption of FMS's silent participation in July 2015. The **tier 1 ratio** declined from 20.3% at the end of 2014 to 18.2%, whilst the **own funds ratio** at the end of 2015 was 19.9% (31 Dec 2014: 22.5%); The ratios for 2015 incorporate the results for the period (post the proposed dividend), and are based on full application of Basel III rules ("fully-phased-in"). The calculation of the 2014 ratios was not based on that year’s adjusted net income, but on actual results including the valuation adjustments on Heta securities.

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[1] Until July 2015, pbb was exempted – under the waiver option pursuant to section 2a of the German Banking Act (“KWG”) and Article 7 of CRD IV – from determining own funds and capital requirements at both single-entity and group level. pbb disclosed this data on a voluntary basis.

Consolidated Income Statement of pbb Group (€ million)
based on unaudited and not yet approved consolidated financial statements in accordance with IFRS

	2014[1)]			2015[2)]				
	Q4	**FY**	**FY[3)]**	**Q1**	**Q2**	**Q3**	**Q4**	**FY**
Operating income	11	326	438	93	109	98	100	400
Net interest and similar income	118	421	421	113	116	95	102	426
Net fee and commission income	1	1	1	7	2	3	2	14
Net trading income	-9	-30	-27	5	2	-	8	15
Net income from financial investments	-100	-77	32	-20	-17	5	-	-32
Net income from hedging relationships	2	-3	-3	-1	3	7	2	11
Net other operating income/expenses	-1	14	14	-11	3	-12	-14	-34
Loan loss provisions	-20	-21	-13	4	1	3	-7	1
General and administrative expenses	-63	-251	-251	-48	-50	-52	-57	-207
Net miscellaneous income/expenses	-1	-	-	2	1	4	-6	1
Pre-tax profit/loss	-73	54	174	51	61	53	30	195
Income taxes		-50	-58					35
Profit/loss after taxes		4	116					230

1) Audited figures for the 2014 financial year; unaudited for the 2014 quarters
2) Based on unaudited and not yet approved financial statements for the 2015 financial year; unaudited for the 2015 quarters
3) Excluding the burden resulting from the exposure to Heta Asset Resolution AG

Overview of the pbb Group

	FY 2014[1)]	**FY 2015[2)]**
Key financial indicators		
Basic and diluted earnings per share (€)	0.03	1.71
Cost/income ratio (in %)	77.0	51.8
Return on equity before taxes[3)] (%)	1.6	6.2
Return on equity after taxes[3)] (%)	0.1	7.4
	31/12/2014	**31/12/2015**
Balance sheet figures		
Equity [3)] (excluding revaluation reserve) (€ bn)	3.4	2.7
Equity[3)] (€ bn)	3.5	2.7
Regulatory indicators[5)7)]		
CET1 ratio (fully phased in – %)	13.8[6)]	18.2
Own funds ratio (fully phased in[3)] – %)	22.5[6)]	19.9
Leverage Ratio (fully phased in[4)] – %)	4.6	3.9

1) Audited figures for the 2014 financial year
2) Based on unaudited and not yet approved financial statements for the 2015 financial year
3) For 2014, including the €1.0 billion silent participation by the German Financial Markets Stabilisation Fund (FMS) For 2015, the silent participation has only been taken into account until full repayment occurred on 6 July 2015.
4) The Leverage Ratio is defined as the ratio between tier 1 capital and the relevant exposure according to the CRR.
5) Until July 2015, pbb was exempted – under the waiver option pursuant to section 2c [CHECK] of the German Banking Act ("KWG") and Article 7 of CRD IV – from determining own funds and capital requirements at both single-entity and group level. pbb disclosed this data on a voluntary basis.
6) Previous year's figure adjusted.
7) Incl. full year profit, post proposed dividend