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PFANDBRIEFBANK

## Press Release

### **pbb expects positive non-recurring effect of approximately €132 million in the event of successful implementation of MoU for Heta debt securities**

**Munich, 18 May 2016** - Creditors of Austrian workout institution Heta Asset Resolution AG ("Heta"), including Deutsche Pfandbriefbank AG („pbb“), as well as the Republic of Austria, today entered into a Memorandum of Understanding (MoU) which provides for the largest part of certain Heta's liabilities ("Heta debt securities") to be repaid. Based on this MoU, the parties confirmed their joint intention to achieve an amicable agreement regarding the restructuring of these Heta liabilities which are covered by a guaranty of the Federal State of Carinthia. It is intended that the Kärntner Ausgleichszahlungs-Fonds will make a buy-back offer to Heta creditors for the Heta debt securities they hold.

Assuming this Offer will – as planned – be made, accepted and therefore become effective, this would result in a non-recurring pre-tax gain of €132 million (after deduction of interest and other demands totaling €26 million) for pbb Group, expected to be recognised during the financial year 2016. In March 2016, pbb anticipated slightly lower consolidated profit before taxes (in accordance with IFRS) for 2016, compared to the very good figure of € 195 million for the previous year. The expectation already incorporated moderate reversals of loan loss provisions on claims against Heta in the amount of around €10 million.

Implementation of the MoU requires - among other conditions - on the one hand the creation of the necessary legislative framework and on the other hand the acceptance of the offer according to the quota required by law. In addition, the outcome of the co-ordination with the European Commission needs to be considered.

In order to prevent drawn-out and expensive litigation – with uncertain outcome – pbb has agreed to the MoU, and will also accept the repurchase offer. In this way, pbb would achieve a result that exceeds the quota originally offered by way of a proposed out-of-court settlement.

In its non-strategic Value Portfolio, pbb holds Heta debt securities with an aggregate nominal amount of €395 million. The Bank wrote down these claims, through valuation adjustments totaling €197.5 million, largely in the fourth quarter of 2014 and the first quarter of 2015. In addition to the principal amount, which is for the largest part provided for by the offer, pbb made valuation adjustments to coupon payments and other demands not covered by the buy-back offer.

On 1 March 2015, the Austrian financial markets supervisory authority ("FMA") had issued a notice by which FMA deferred the maturity of Heta debt securities, including interest payments. On 10 April 2016, FMA imposed a haircut on Heta debt securities held by pbb, to a nominal value of 46.02%, also reducing the coupon to zero, effective 1 March 2015. The maturity dates were changed to the effect that the securities will only mature upon Heta's liquidation, in any case on 31 December 2023 at the latest.

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