PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE PFANDBRIEFBANK

Press Release

pbb Deutsche Pfandbriefbank posts a solid start into the year

- Pre-tax profit of €45 million
- New business volume remains constant, a high level of €2.9 billion
- Strong funding activities
- Reappointment of members of the Management Board and changes to the areas of responsibility

Munich, 12 May 2016 – During the first quarter of 2016, Deutsche Pfandbriefbank AG ("pbb") generated pre-tax profit (unaudited, consolidated figures in accordance with IFRS) of €45 million. Whilst this was slightly below the results of the same quarter of the previous year (Q1 2015: €51 million), it was within the scope of expectations communicated for the current financial year. Results were shaped by net interest income which was lower year-on-year, due to a lower portfolio of investment securities and repayments of higher-margin business, balanced loan loss provisioning, further cost reductions, and expenses incurred for the bank levy. Against the background of stable gross margins on new business and largely constant loan-to-value ratios, both compared to the full year 2015, new business of €2.9 billion (including extensions beyond one year) was on a par with the high levels of the previous year (Q1 2015: €2.8 billion). Moreover, with two long-term Pfandbrief issues and one unsecured bond – all placed in benchmark format – pbb Bank made a strong entry into the year 2016.

Andreas Arndt, CEO and CFO of pbb, said: "The Bank has made a solid start into the year, within our expectations. Having said that, we anticipate persistently increasing competitive pressures and very demanding credit markets. Independent from our day-to-day business, we are preparing ourselves for stricter regulatory requirements – especially in terms of the risk weightings of our assets."

Commercial Real Estate Finance accounted for €2.7 billion of aggregate **new business** (including extensions beyond one year); €0.2 billion was originated in Public Investment Finance. As in previous periods, a large part of new Real Estate Finance business was concluded in pbb's home market of Germany (50%), followed by the United Kingdom (23%), Central and East European countries (10%), and France (7%). The average loan-to-value ratio of 63% was stable compared to the full-year levels for 2015. In Public Investment Finance, 43% of new business originated was accounted for in France, and 39% in Spain. In this division, the Bank provided financings in the UK for the first time (18%).

During the first three months of the year, pbb raised **new long-term funding** of €2.3 billion (Q1 2015: €1.4 billion), by way of public offerings and private placements. Pfandbriefe accounted for €1.3 billion of new issuance, with the remaining €1.0 billion placed via promissory notes and bearer bonds. The volume of deposits at pbb direkt, pbb's online offer for overnight and time deposit investments for private investors, continued to rise, reaching €3.1 billion as at 31 March 2016 (31 December 2015: €2.6 billion), placed by approximately 33,200 customers.

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Reappointment of Members of the Management Board

On 11th May, with a view to the long-term planning of Management Board activities, the Supervisory Board of pbb Deutsche Pfandbriefbank reappointed Andreas Arndt and Thomas Köntgen as Members of the Management Board for a further five years. Andreas Schenk, as Chief Risk Officer, had already been reappointed in December 2015 for a further five years. Dr Bernhard Scholz, on the other hand, will leave the Management Board at his own request when his contract ends in April 2017. He will then join a real estate consultancy firm in Munich as Partner, and focus his attention on other areas outside banking.

As a result, the areas of responsibility within the Management Board have also been adjusted. Thomas Köntgen, who has many years' experience in commercial real estate finance, will take over responsibility for this area from Dr Bernhard Scholz. He will remain responsible for the area of Treasury for the time being; the Supervisory Board has already begun looking for a new Board Member for Treasury.

Scholz will concentrate on origination within Public Investment Finance, the expansion of syndication and placements, and the setting up of the US business, as well as additional strategic initiatives regarding the bank's lending business.

The corporate functions will, to a large extent, fall under Andreas Arndt's area of responsibility. Arndt will also remain Chief Financial Officer. At the same time, Andreas Arndt was appointed Chief Executive Officer and Thomas Köntgen Deputy Chief Executive Officer.

The Chairman of the Supervisory Board, **Dr Günther Bräunig**, said: "With the reappointment of Andreas Schenk in December of last year and this extension of Andreas Arndt's and Thomas Köntgen's contracts, we want to create the necessary conditions to enable the Management Board to continue its successful work in the long-term. As a result, the appointments of the Board Members now end in different years, adding stability to the Management Board."

"With regard to the position of CEO, the Supervisory Board – in agreement with Andreas Arndt and Thomas Köntgen – came to the consensus that, with the completion of the privatization, this responsibility should be transferred to Andreas Arndt alone.
I would like to take this opportunity to already thank Bernhard Scholz for his commitment to the Company. As the longest serving Board Member at pbb, he has earned a great deal of credit through the restructuring and realignment of pbb as well as with its positioning on the market. We regret his decision but respect his wish not to consider a reappointment. A seamless transition is ensured by the transfer of the area of Commercial Real Estate Finance to Thomas Köntgen," Bräunig added.

Facts and figures on the first quarter of 2016

1. Consolidated income statement (IFRS, unaudited)

Net interest income of €102 million for the first quarter was stable compared to the fourth quarter of the previous year, but down year-on-year (Q1 2015: €113 million). A lower level of investment securities – reflecting maturities and sales – contributed to this decline. Moreover, the portfolio margin declined, due – amongst other factors – to repayment of high-margin loans during 2015. The higher average strategic portfolio volume of €31.3 billion (Q1 2015: €29.4 billion) had a positive effect on net interest income. **Net commission income** declined to €2 million (Q1 2015: €7 million); the previous year's period included non-recurring commission income of €5 million in connection with a loan which was repaid in full.

Loan loss provisioning was balanced overall during the period under review (Q1 2015: net release of €4 million).

General administrative expenses declined further, to €45 million (Q1 2015: €48 million), thus reaching the lowest quarterly level since pbb's restart in 2009. Whilst non-personnel expenses remained on a constant level of €20 million, personnel expenses declined to €25 million (Q1 2015: €28 million). Factors contributing to the lower figure included the lower average number of staff (816; Q1 2015: 842), and a decrease in charge-offs of provisions.

As in the same quarter of the previous year, **net other operating income/expenses** in the amount of €–14 million (Q1 2015: €–11 million) was materially determined by the bank levy. Projected for the year as a whole, the bank levy increased to €21 million, up by approximately €3 million over the previous year. Additional expenses were recognised for writing off a foreclosed property in Spain. The net figure included income from a value-added tax refund, from currency translation, and from rental income emanating from acquired real estate.

Net trading income (€–5 million; Q1 2015: €5 million) benefited from measurement effects of derivatives, based on interest rate and exchange rate fluctuations, whilst charges were recognised from the subsequent measurement of derivatives, taking into account the bilateral credit value adjustment (CVA). The so-called 'pull-to-par' effect – according to which the present value of derivatives approaches zero towards maturity – led to further expenses.

Net income from financial investments (€4 million; Q1 2015: €–20 million) resulted predominantly from sales of securities, for the purpose of optimising the liquidity buffer. The net figure for the same period of the previous year included significant negative effects due to additional valuation adjustments of €73 million on securities issued by HETA Asset Resolution AG, but also income from the sale of a security.

2. Total assets

pbb Group's **consolidated total assets** (in accordance with IFRS) totalled €68.1 billion at the end of the first quarter, up by just under 2% from the 2015 year-end (31 December 2015: €66.8 billion). Factors impacting the level of total assets incuded, in particular, higher fair value adjustments of derivatives, receivables and securities, due to the further decline in market interest rates, which more than offset the lower nominal value of the securities portfolio.

3. Regulatory indicators

The **CET1 ratio** (fully phased in) as at 31 March 2016 stood at 18.1% (31 December 2015: 18.2%); the **own funds ratio** (also fully-phased in) was 19.8% (31 December 2015: 19.9%). The slight decline in the capital ratios was attributable to higher deductions from regulatory capital, on a fully-phased in basis. pbb therefore continues to maintain a good cushion for existing ECB requirements, as well as for potentially stricter regulatory requirements going forward, especially for a possible increase in risk-weighted assets.

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pbb Deutsche Pfandbriefbank
pbb Deutsche Pfandbriefbank (www.pfandbriefbank.com) is a leading European specialist bank for real estate finance and public investment finance. It is the largest issuer of Pfandbriefe (German covered bonds) and a major covered bond issuer in Europe. Deutsche Pfandbriefbank AG shares are listed on the Frankfurt Stock Exchange.

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Consolidated Income Statement of pbb Group

(consolidated, unaudited figures in accordance with IFRS (31 Dec 2015: audited), € million)

	2015					2016
	Q1	Q2	Q3	Q4	FY	Q1
Operating income	93	109	98	100	400	90
Net interest and similar income	113	116	95	102	426	102
Net fee and commission income	7	2	3	2	14	2
Net trading income	5	2	-	8	15	-5
Net income from financial investments	-20	-17	5	-	-32	4
Net income from hedging relationships	-1	3	7	2	11	1
Net other operating income/expenses	-11	3	-12	-14	-34	-14
Loan loss provisions	4	1	3	-7	1	-
General and administrative expenses	-48	-50	-52	-57	-207	-45
Net miscellaneous income/expenses	2	1	4	-6	1	-
Pre-tax profit/loss	51	61	53	30	195	45
Income taxes	-12				35	-11
Profit/loss after taxes	39				230	34

Overview of the pbb Group

	Q1 2015	Q1 2016
Key financial indicators		
Basic and diluted earnings per share (€)	0.29	0.25
Cost/income ratio (in %)	51.6	50.0
Return on equity before taxes (%)	5.9[1)]	6.7
Return on equity after taxes (%)	4.5[1)]	5.1
	31 Dec 2015	**31 Mar 2016**
Balance sheet figures		
Equity (excluding revaluation reserve) (€ bn)	2.7	2.7
Equity (€ bn)	2.7	2.8
Regulatory indicators[2)]		
CET1 ratio (fully phased in – %)	18.2	18.1
Own funds ratio (fully phased in – %)	19.9	19.8
Leverage Ratio (fully phased in – %)[3)]	3.9	3.8

1) Excluding the silent partnership contribution, return on equity would be 8.3% before taxes and 6.3% after taxes.
2) After the adoption of the annual financial statements 2015 and the appropriation of profits less proposed dividend (subject to approval by the General Meeting)
3) The Leverage Ratio is defined as the ratio between Tier 1 capital and the relevant exposure according to CRR.