PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE PFANDBRIEFBANK

Press Release

Pre-tax profit for the first half of 2016 within expectations

- pbb posts pre-tax profit of €87 million for the first six months
- Together, net interest and commission income totalled €198 million, down year-on-year
- New business of €4.7 billion for the first half of 2016 lower than in the same period of the previous year, reflecting a conservative risk approach in a challenging market environment
- No loan loss provisioning required during the first half-year
- General administrative expenses decreased again
- Guidance for full-year profit before taxes confirmed, due to low loan loss provisions and reduced general administrative expenses
- pbb is well-capitalised – fully phased-in CET1 ratio rises to 18.4%
- Re-entry into the US real estate market planned for the second half of the year

Munich, 12 August 2016 – pbb Deutsche Pfandbriefbank ("pbb") generated pre-tax profit of €42 million during the second quarter (Q1 2016: €45 million; consolidated figures in accordance with IFRS reviewed by external auditors). Pre-tax profit of €87 million for the first half of the year (H1 2015: €112 million) was in line with pbb's own expectations, which provided for a slight decline in full-year results, compared to the good figures for 2015. Whilst the aggregate of net interest and commission income – in the amount of €198 million for the first half of the year – was lower compared to the same period of the previous year (H1 2015: €238 million), it was relatively stable vis-à-vis the second half of 2015 (H2 2015: €202 million). Net interest income generated in pbb's operating business only declined slightly during the quarter under review; the planned reduction in the non-strategic portfolio, lower non-recurring effects, and liquidity reserves all had a more negative impact. No loan loss provisioning was required during the first six months of the year; pbb reduced general administrative expenses to €94 million (H1 2015: €98 million). New business totalled €4.7 billion (H1 2015: €6 billion; all figures for new business including extensions of more than one year), whereby new business origination was weaker during the second quarter (and especially in Public Investment Finance). Nonetheless, pbb managed to keep its margins stable, through selective new business origination.

Based on new business volumes during the first half of the year, pbb now anticipates full-year volumes to be significantly lower than the previous year's level. Consequently, pbb endeavours to keep its strategic portfolios at a stable level, but no longer anticipates a strong increase. Whilst the Bank now anticipates full-year net interest and commission income to be significantly weaker than the slight decline originally envisaged, it affirms its guidance for 2016 pre-tax profit, based upon its expectation of lower risk costs and general administrative expenses.

CEO **Andreas Arndt** commented: "In the current market phase, our conservative risk approach leads to lower new business volumes – with the corresponding effect upon net interest and commission income from our operating business. Persistently low interest rate levels have a similar effect, since they burden income from investing equity and raise the costs of holding liquidity. These effects are offset by low risk costs, however, and by general administrative expenses which are once again lower in the current year. Hence, despite these headwinds, we maintain our expectation of pre-tax profit for the full year slightly below the previous year's level. However, these expectations would no longer be feasible if the – already difficult – market situation were to escalate further."

Deutsche Pfandbriefbank AG
Communications
Freisinger Strasse 5
85716 Unterschleissheim, Germany

New business originated by pbb was shaped by the difficult market environment and the Bank's conservative approach to risk. In this environment, the Bank has maintained largely stable gross margins on new Real Estate Finance business since the beginning of 2015. Real Estate Finance accounted for €4.5 billion in new business during the first half of the year, whilst Public Investment Finance contributed €0.2 billion (H1 2015: €5.2 billion and €0.8 billion, respectively). In Real Estate Finance, new commitments increased slightly, whilst extensions declined. Germany accounted for the lion's share (51%) in new real estate finance business, followed by the United Kingdom (18%), Central and Eastern Europe (9%), France (8%), and the Nordic countries (3%).

pbb aims to realise its planned **entry into the US real estate market** during the second half of the year. The Bank is looking to cooperate with existing clients investing on an international scale, as well as with established banking partners. The focus of pbb's activities in the US will be on syndications; the Bank's particular interest is in financing office buildings at the East coast of the US with a focus on New York City, Washington, D.C., and Boston (MA).

During the first six months of the year, pbb increased **new long-term funding** to €3.5 billion (H1 2015: €2.2 billion), with higher issuance across all product groups: Mortgage Pfandbriefe accounted for €1.3 billion of new issuance (H1 2015: €0.5 billion); Public Sector Pfandbriefe issuance raised €0.5 billion (H1 2015: €0.3 billion), and senior unsecured funding via promissory note loans and bonds made up the remaining €1.7 billion (H1 2015: €1.5 billion). The volume of deposits at pbb direkt, pbb's online offer for private investors, rose further during the first half of 2016, to €3.4 billion (31 December 2015: €2.6 billion). pbb direkt has also been offering overnight and term deposits in US dollars since mid-July 2016.

pbb is well-capitalised and continues to hold a buffer over the existing requirements set by ECB to date. The Bank's **CET1 ratio** has improved slightly: assuming full implementation of Basel III requirements ("fully phased-in"), it stood at 18.4% on 30 June 2016 (31 December 2015: 18.2%). Based on its current capital ratios, pbb believes it is well-equipped to also deal with more demanding requirements which may emerge from further regulatory restrictions ahead.

Media contacts:

Walter Allwicher, +49 89 2880-28787, walter.allwicher@pfandbriefbank.com
Oliver Gruss, +49 89 2880-28781, oliver.gruss@pfandbriefbank.com

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.

FACTS AND FIGURES ON THE SECOND QUARTER/FIRST HALF OF 2016

1. **Consolidated income statement** (IFRS, reviewed by external auditors)

pbb generated **net interest income** of €93 million during the second quarter of 2016, compared to €116 million in the same period of the previous year. Net interest income of €195 million for the first six months of 2016 was lower year-on-year (H1 2015: €229 million), but stable compared with the second half of 2015 (H2 2015: €197 million). The year-on-year decline in the first half-year was due in particular to lower non-strategic portfolios over the course of the last year as well as lower non-recurring effects. In the strategic portfolios, however, higher volumes almost fully offset the impact of the lower average margin on existing exposures. Income was also under pressure as a result of generally lower interest rate levels, further growing competitive pressure, and the proliferation of negative interest rates throughout the euro area. **Net fee and commission income** amounted to €3 million during to the first six months (H1 2015: €9 million); the previous year's period included non-recurring commission income of €5 million in connection with a financing which was repaid in full.

pbb's conservative risk approach has been evident in **loan loss provisions**, which were zero both in the second quarter and the first half of 2016 (Q2 2015: €1 million; H1 2015: €5 million).

General administrative expenses declined further during the second quarter 2016, to €49 million (Q2 2015: €50 million) and to €94 million for the first half of the year (H1 2015: €98 million). Non-personnel expenses increased slightly, to €43 million (H1 2015: €42 million), against the background of a bank-wide project for the implementation of new regulatory requirements, and to enhance efficiency. In contrast, personnel expenses were reduced from €56 million in the first half of 2015 to €51 million in the period under review. Factors contributing to this reduction included lower average staffing levels, and disbursements during the reporting period for which provisions were recognised in previous periods.

Net other operating income/expenses amounted to €–1 million in the second quarter of 2016 (Q2 2015: €3 million). The net figure for the first half of 2016 was €–15 million (H1 2015: €–8 million), predominantly burdened by the bank levy. After pbb pledged cash collateral not affecting income, €21 million in expenses was recognised for the bank levy during the first half of 2016. Additional expenses were recognised for writing off a foreclosure in Spain. Positive contributions were made through refunds of prepaid VAT, rental income from foreclosed properties, and from currency translation effects. The previous year's figure included €39 million in pre-tax profit from the sale of a property in Japan; burdening factors included the bank levy as well as expenses for litigation provisions.

pbb Group posted negative **net trading income** for the second quarter of the year (€–2 million; Q2 2015: €2 million) and the first half of 2016 (€–7 million; H1 2015: €7 million), mainly due to the effects from derivatives valuation. Charges were recognised from the subsequent measurement of derivatives, taking into account the bilateral credit value adjustment (CVA) which had been positive for the same period of the previous year. Credit spreads for pbb's derivatives counterparties rose (as part of a general trend) during the first half of 2016 – an effect that was exacerbated by the UK's decision to leave the European Union. Valuations deteriorated further as a consequence of this so-called 'Brexit' decision. Net trading income was burdened additionally by the 'pull-to-par' effect, according to which the present value of derivatives approaches zero towards maturity. In contrast, valuation effects of interest rate and currency derivatives had a positive effect.

Net income from financial investments amounted to €1 million during the second quarter (Q2 2015: €–17 million), and €5 million during the first half-year (H1 2015: €–37 million). Sales of securities held as liquidity reserves had a particularly positive impact here. The previous year's figure (H1 2015) was materially influenced by additional valuation adjustments of €73 million on securities issued by Heta, by €55 million in income from the sale of a security, and by €16 million in net expenses from further sales of AfS and LaR securities (largely from the Value Portfolio).

Net miscellaneous income/expenses was flat in the second quarter and the first half of 2016 (Q2 2015: €1 million; H1 2015: €3 million). Income for the first half of the previous year was attributable to a net release of restructuring provisions.

2. Total assets

Consolidated total assets of pbb Group (in accordance with IFRS) increased to €67.5 billion as at 30 June 2016 (31 December 2015: €66.8 billion), due to market-induced effects from the lower interest rate environment. Excluding these effects, total assets would have been slightly lower.

Consolidated Income Statement of pbb Group[1)] (€ million)

	2015				2016		
	Q1	Q2	H1	H2	Q1	Q2	H1
Operating income	93	109	202	198	90	91	181
Net interest and similar income	113	116	229	197	102	93	195
Net fee and commission income	7	2	9	5	2	1	3
Net trading income	5	2	7	8	-5	-2	-7
Net income from financial investments	-20	-17	-37	5	4	1	5
Net income from hedging relationships	-1	3	2	9	1	-1	-
Net other operating income/expenses	-11	3	-8	-26	-14	-1	-15
Loan loss provisions	4	1	5	-4	-	-	-
General and administrative expenses	-48	-50	-98	-109	-45	-49	-94
Net miscellaneous income/expenses	2	1	3	-2	-	-	-
Pre-tax profit/loss	51	61	112	83	45	42	87
Income taxes	-12	-12	-24	59	-11	-10	-21
Profit/loss after taxes	39	49	88	142	34	32	66

1) In accordance with IFRS; financial statements for H1 and Q2: reviewed by external auditors; financial statements for Q1: unaudited; financial statements as at 31 December 2015: audited

Overview of the pbb Group[1)]

	2015 H1	2015 H2	2016 H1
Key financial indicators			
Earnings per share[2)] (€)	0.65	1.06	0.49
Cost/income ratio (in %)	48.5	55.1	51.9
Return on equity (%)			
▪ before taxes	6.5[3)]	5.7[4)]	6.5
▪ after taxes	5.1[3)]	9.7[4)]	4.9
Balance sheet figures (€ billion)	**30 June 2015**	**31 Dec 2015**	**30 June 2016**
Total assets	69.6	66.8	67.5
Equity (excluding revaluation reserve)	3.5	2.7	2.6
Reported equity	3.6	2.7	2.7
Regulatory indicators[5)] (%)			
CET1 ratio (fully phased in)	15.7	18.2	18.4
Own funds ratio (fully phased in)	25.1	19.9	20.0
Leverage Ratio (fully phased in)[6)]	4.9	3.9	3.8

1) In accordance with IFRS; half-yearly financial statements: reviewed by external auditors; financial statements as at 31 December 2015: audited
2) Basic and diluted
3) Excluding the silent partnership contribution repaid in July 2015, return on equity would be 9.1% before taxes and 7.2% after taxes.
4) Excluding the silent partnership contribution repaid in July 2015, return on equity would be 6.4% before taxes and 11.0% after taxes.
5) After approval of the financial statements for 2015 and appropriation of profits, less dividends paid.
6) The Leverage Ratio is defined as the ratio between tier 1 capital and the relevant exposure according to CRR.