PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

Press Release

DEUTSCHE
PFANDBRIEFBANK

pbb posts for 2016 best result since restart

- Result driven by solid core business and releases of write-downs
- Consolidated profit before taxes in accordance with IFRS rises significantly, from €195 million to €301 million
- Second-highest new business volume (€10.5 billion) since restart in 2009 – slight gross margin increase
- Management Board and Supervisory Board propose higher dividend per share of €1.05
- Outlook for 2017 with pre-tax profit of €150 - 170 million in line with adjusted 2016 pre-tax profit

Munich, 08 March 2017 – Based on solid core business and supported by extraordinary income through the release of write-downs, in 2016, pbb Deutsche Pfandbriefbank achieved its best result since the restart in 2009. Consolidated profit before taxes in accordance with IFRS (prepared and approved) rose by 54%, reaching a total of €301 million (2015: €195 million), including extraordinary income of €132 million related to Heta Asset Resolution AG (Heta). The bank's operating business remained stable. A slightly reduced net interest income of €404 million (2015: €426 million) was offset by continuously low loan loss provisions of €-1 million (2015: release of €1 million) as well as by reduced general administrative expenses of €198 million (2015: €207 million). Profit after taxes amounted to €197 million, or €1.46 per share. For the fourth quarter of 2016, pbb posted a pre-tax profit of €55 million (Q4 2015: €30 million).

With **new business** totalling €10.5 billion, pbb generated its second-highest volume since the restart in 2009, thus holding up well in an ongoing competitive environment (2015: €12 billion; all new business figures including extensions of more than one year). pbb increased its average gross margins on new business, while applying the same high risk standards.

Based on this very positive result, the Management Board and the Supervisory Board will propose to the Annual General Meeting to pay a significantly higher **dividend** of €1.05 per share. As announced in November, the dividend proposal includes a special dividend in addition to the distribution within the communicated dividend strategy of 40% to 50% of consolidated profit after taxes in accordance with IFRS. pbb will distribute the entire extraordinary income from the release of write-downs related to Heta. This equates to a dividend yield of 11.5%, based on the pbb share price at year-end 2016.

pbb's CEO/CFO **Andreas Arndt** said: “2016 was a good year for pbb and an extraordinary effect turned it into a very good year. The current financial year will not be any less challenging – taking into consideration impending regulatory changes, as well as the competitive situation. We intend to continue with our conservative approach to risk, whilst making prudent investments in new projects and business segments.“

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Outlook for 2017

For the year 2017, pbb is expecting a stable to slightly weaker **net interest income**, as a result of improved interest-bearing positions and stable to weaker margins.

The bank is also aiming for a **new business volume** of between €10.5 billion and €12.5 billion, including extensions of more than one year. The year-on-year increase is expected to result especially from new business generated in the US, as well as from Public Investment Finance and stabilized pre-payments.

pbb anticipates higher **loan loss provisions** and – as in the previous year – estimates risk costs of 10 to 15 basis points on the Real Estate Finance portfolio. However, the bank does not have any concrete grounds for higher loan loss provisions.

After four years, and with cost reductions of more than 40%, pbb sees **general administrative expenses** rising again. This concerns higher personnel expenses in particular, of which a material part is technical, owing to the end of the reversal of provisions. Even so, pbb aims to keep general administrative expenses below the €220 million mark in 2017.

As communicated already in November 2016, pbb is aiming for a **pre-tax profit** between €150 million and €170 million, in line with the 2016 operating profit, adjusted for extraordinary income related to Heta.

pbb intends to **promote innovations** in 2017, with the aim of diversifying its product and service offer, and further enhancing profitability. New technologies and management approaches also allow pbb to reinforce its value chain for both the customer as well as internally. The digitalisation of lending processes on platform models is expected to develop new customer groups and strengthen internal efficiency.

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FACTS AND FIGURES ON THE FINANCIAL YEAR 2016

1. New business

A large proportion of new business (€9.5 billion; 2015: €10.4 billion; including extensions of more than one year) was again related to the **Real Estate Finance** segment. With 47%, Germany continued to be pbb's most important market, followed by the United Kingdom (18%) and France (12%). The United States, a market which pbb entered in 2016, also contributed to the new business. On this largest and most important real estate market, the bank plans to increase its activities with a local team in 2017. With moderately increasing gross margins (2016: >175 basis points; 2015: approx. 170 basis points) the bank remained true to its conservative risk policy. The average loan-to-value ratio 2016 (62%) practically remains constant (2015: 63%).

In **Public Investment Finance**, pbb generated a new business volume totalling €1.0 billion in 2016 (2015: €1.6 billion). Most of this was written in France (72%), followed by Spain (12%) and Germany (7%). The ongoing low level of investment carried out by the public sector limited business opportunities that met pbb´s risk and return requirements. Gross margins rose to approximately 85 basis points (2015: >75 basis points).

2. Funding

In the year under review, pbb increased its activities in the funding markets and borrowed **long-term funding** totalling €5.6 billion (2015: €4.5 billion). Mortgage Pfandbriefe accounted for €1.9 billion (2015: €1.1 billion), with an average maturity of 9.8 years (2015: 15.7 years), and Public-sector Pfandbriefe for €1 billion (2015: €0.8 billion), with an average maturity of 11.8 years (2015: 5.5 years). The volume of unsecured funding remained stable at €2.6 billion, with an average maturity of 6.5 years (2015: 4.2 years). pbb offers overnight deposits and term deposits for private investors via **pbb direkt**; the latter's deposit volumes increased by €0.8 billion, reaching €3.4 billion. At 3.5 years, the average deposit term remained unchanged.

3. Consolidated income statement for the 2016 financial year
(IFRS, pbb Group, prepared and audited)

2016 was characterised by challenging market interest rates and a competitive environment, in which pbb achieved an **aggregate of net interest income and commission income** of €412 million (2015: €440 million).

- In pbb's strategic business areas, Real Estate Finance and Public Investment Finance, **net interest income** increased, whereas the non-strategic Value Portfolio (run-down portfolio) – mainly comprising budget financing – was reduced as scheduled. In pbb's strategic business, net interest income benefited from the increased average financing volume rising to €31.3 billion (2015: €30.2 billion). In addition, the allocation of income from compensation for early terminations had a positive effect, more than offsetting declining average margins on existing exposures.

  The run-down portfolio's financing volume, however, was reduced according to strategy, thus also decreasing this segment's contribution to net interest income. In contrast to previous years, in 2016 the Value Portfolio's net interest income did not benefit from income generated by asset sales.

  Fourth-quarter net interest income from the entire portfolio developed positively (Q4 2016: €112 million), establishing a quarter-on-quarter increase of 15% (Q3 2016: €97 million).

- **Net fee and commission income** declined to €8 million (2015: €14 million). The figure for the same period in the previous year included €5 million in commission income generated in connection with a financing arrangement, which was repaid in full.

Loan loss provisions of €-1 million (2015: release of €1 million), indicate pbb's special risk management competence. Specific allowances included net releases of €6 million (2015: net additions of €16 million). Portfolio-based allowances amounted to net additions of €12 million (2015: net releases of €13 million). Income of €5 million resulted from recovery payments from previously written-off loans and advances, as well as from the releases of provisions that had been created for contingent liabilities and other commitments.

On the back of an ongoing strict cost discipline, pbb continued to reduce **general and administrative expenses** to €198 million (2015: €207 million). Thus, despite investment in a bank-wide project for the implementation of new regulatory requirements, and for efficiency enhancement, non-personnel expenses remained unchanged, at €95 million (2015: €95 million), whilst personnel expenses, totalling €103 million (2015: €112 million), were reduced. This development was driven by a lower average number of employees (801; 2015: 832), and payments for which provisions had been created in prior periods (this effect will fall away in 2017).

Net other operating income/expenses (€-29 million; 2015: €-34 million) was burdened by the bank levy in the amount of €21 million (2015: €18 million) following the pledge of cash collateral. Additional expenses resulted from the write-down of foreclosed properties and for recognising provisions for litigation costs related to tax audits on prior years and other legal disputes. Those were partly compensated by a gain from a financial instrument. Additional positive impacts resulted from rental income and positive currency translation effects. The net figure for the previous year benefited from the divestment of a property in Japan, generating €39 million.

Net trading income totalled €-6 million (2015: €15 million). It was burdened, among other things, with €13 million (2015: €19 million) by the pull-to-par effect, according to which the present value of derivatives approaches zero towards maturity. Additionally, net trading income was affected by the measurement of pbb's credit risk and its derivative counterparties (so-called bilateral Credit Value Adjustment), which resulted in expenses of €3 million (2015: income of €14 million). On a positive note, interest rate and exchange rate fluctuations led to positive measurement effects of derivatives in the amount of €13 million (2015: €20 million).

Net income from financial investments (€125 million; 2015: €-32 million) was strongly influenced by the extraordinary effect of €123 million related to Heta. In addition, income was generated with security disposals of the liquidity buffer. The previous year's figure was burdened significantly by additional write-downs of €73 million on Heta, which was only partially offset by net income from the sale of securities.

Net income from hedging relationships (€6 million; 2015: €11 million) was exclusively due to hedge inefficiencies of fair value hedge relationships.

Consolidated **profit before taxes** in accordance with IFRS rose by 54%, reaching a total of €301 million (2015: €195 million). **Profit after taxes** for the year under review totalled €197 million (2015: €230 million). Expenses for current taxes of €59 million (2015: €48 million) and expenses for deferred taxes of €45 million (2015: income of €83 million) resulted in total tax expenses of €104 million (2015: tax income €35 million).

4. Total assets (IFRS, pbb Group prepared and audited)

Consolidated total assets of pbb Group as at 31 December 2016 amounted to €62.6 billion – down around 6% year-on-year (31 December 2015: €66.8 billion). This result can be ascribed especially to lower market values of derivatives (due to market-induced effects), maturities, and decreased fair value adjustments in hedge accounting.

5. Regulatory capital ratio and SREP
(IRBA, pbb Group, prepared and audited)

pbb's capital ratios have improved further, resulting in a comfortable capital buffer, which is a prerequisite for further growth on the one hand, and a risk buffer for increasing regulatory requirements on the other, e.g. as a consequence of the TRIM process implemented by ECB (targeted review of bank's internal models) or Basel IV. pbb's CET1 ratio was 19.0% as at 31 December 2016 (31 December 2015: 18.2%); the own funds ratio stood at 20.7% (31 December 2015: 19.9%); all regulatory indicators were calculated on a 'fully phased-in' basis, i.e. assuming the expiration of all transitional arrangements under Basel III.

The **capital requirements** that pbb must meet in 2017 arise from the ECB's **Supervisory Review and Evaluation Process** (SREP). pbb clearly meets the requirements.

- The **CET 1 Requirement** is 9% for pbb under the Basel III transitional rules (excluding the country-specific and thus portfolio-specific countercyclical capital buffer, which was 0.08% as at 31 December 2016). With the new ratio, the ECB has lowered the requirement for pbb by 1.75 percentage points from the previous year.

- The new **Overall Capital Requirement,** which has been applicable since 1 January 2017, stands at 12.5% (excluding the country-specific and therefore portfolio-specific, variable countercyclical capital buffer of 0.08% as at 31 December 2016).

Consolidated Income Statement of pbb Group

(in accordance with IFRS, prepared and audited; € million)

	2015		2016				
	Q4	FY	Q1	Q2	Q3	Q4	FY
Operating income	100	400	90	91	214	113	508
Net interest and similar income	102	426	102	93	97	112	404
Net fee and commission income	2	14	2	1	2	3	8
Net trading income	8	15	-5	-2	-3	4	-6
Net income from financial investments	-	-32	4	1	123	-3	125
Net income from hedging relationships	2	11	1	-1	1	5	6
Balance of other operating income/expenses	-14	-34	-14	-1	-6	-8	-29
Loan loss provisions	-7	1	-	-	3	-4	-1
General and administrative expenses	-57	-207	-45	-49	-53	-51	-198
Net miscellaneous income/expenses	-6	1	-	-	-5	-3	-8
Pre-tax profit/loss	30	195	45	42	159	55	301
Income taxes	59	35	-11	-10	-38	45	-104
Profit/loss after taxes	89	230	34	32	121	10	197

Overview of the pbb Group

	FY 2015	FY 2016
Key financial indicators		
Earnings per share (€)	1.71	1.46
Dividend per share[1] (€)	0.43	1.05
Cost/income ratio (in %)	51.8	39.0
Return on equity before taxes (%)	6.2	11.1
Return on equity after taxes (%)	7.4	7.3

	31 Dec 2015	31 Dec 2016
Balance sheet figures (IFRS)		
Total assets (€ billion)	66.8	62.6
Financing volumes (€ billion)	31.3	31.5
Equity (€ billion)	2.7	2.8

Key regulatory capital ratios (%)	31 Dec 2015	31 Dec 2016[2]
CET1 ratio (fully phased in)	18.2	19.0
Own funds ratio (fully phased in)	19.9	20.7
Leverage Ratio (fully phased in)[3]	3.9	4.2

1) For the fiscal year 2016 proposal to the General Meeting on 30 May 2017.
2) After confirmation of the 2016 financial statements, less the proposed dividend
3) The Leverage Ratio is defined as the ratio between tier 1 capital and the relevant exposure according to CRR.