Press Release

pbb well on track during the first quarter – a solid start into the year

- Slight increase in pre-tax profit, to €47 million
- Aggregate of net interest income and net commission income stable, at €106 million
- Solid new business volume of €2.4 billion
- Arndt: we are implementing initiatives in order to develop pbb further, and to strengthen its market position – pushing innovation

Munich, 15 May 2017 – During the first quarter of 2017, Deutsche Pfandbriefbank (pbb) slightly increased pre-tax profit to €47 million (Q1 2016: €45 million; consolidated figures in accordance with IFRS). The key drivers of pbb's lending business remained consistent: the aggregate of net interest income and net commission income was stable, at €106 million (Q1 2016: €104 million), and loan loss provisions came in at €2 million (Q1 2016: € nil). Operative net interest income – excluding prepayment fees and other non-recurring effects – rose from €86 million during the same period of the previous year to €95 million, driven mainly by lower funding expenses.

As expected, general and administrative expenses increased to €50 million (Q1 2016: €45 million), especially due to a further increase in the cost of regulatory requirements and projects, but also due to a technical effect, given that personnel expenses for the same quarter of the previous year had benefited from charge-offs of provisions. The bank levy – which is recognised for the full year during the first quarter, burdened first-quarter results by €20 million. At the same time, pbb recognised €7 million in net income, including proceeds from the disposal of assets from the non-strategic Value Portfolio.

New business volume amounted to €2.4 billion, falling short of the result achieved during the same period of the previous year (Q1 2016: €2.9 billion; all figures related to new business include extensions by more than one year), but exceeding the average first-quarter volume. At €31.8 billion, the strategic portfolio was slightly higher than at the end of the previous year (December 2016: €31.5 billion). The non-strategic Value Portfolio was reduced further, to €15.5 billion (December 2016: €15.8 billion)

The CET1 ratio rose to 19.2% as at 31 March 2017 (December 2016: 19.0% – both fully phased-in), remaining above the industry average – providing the bank with a comfortable capital buffer for further growth and increasing regulatory requirements.

For the full-year 2017, pbb is aiming for pre-tax profit of between €150 million and €170 million, as well as for a new business volume of between €10.5 billion and €12.5 billion. The results of the first quarter support this guidance.

Andreas Arndt, pbb's CEO, said: "pbb is holding its course, in an environment that remains very difficult – notably, in terms of interest rates and tough competition. We have started 2017 with solid results and a good level of new business. We are embarking upon implementation of various initiatives designed to develop pbb further, and to strengthen its market position – as well as pushing innovation: the expansion of our business in the US, broadening our client base in existing markets through the introduction of new products and exploring new client groups, as well as the ongoing development of digital solutions."

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FACTS AND FIGURES FOR THE FIRST QUARTER OF 2017
(consolidated figures in accordance with IFRS)

1. New business

Commercial Real Estate Finance accounted for €2.0 billion (Q1 2016: €2.7 billion) of aggregate **new business**; €0.4 billion (Q1 2016: €0.2 billion) was originated in Public Investment Finance. At 61%, the lion's share of new Real Estate Finance business was originated in the German market. The high proportion of new German business led to a decline in the average gross margin (to >160 basis points (bp); Q1 2016: approx. 170 bp). The average loan-to-value ratio decreased to 62% (Q1 2016: 63%). Financings in the US market, where pbb resumed activities only during the second half of 2016, accounted for 8% of new business.

2. Funding

During the first quarter of the current year, pbb raised **new long-term funding** of €2.7 billion (Q1 2016: €2.3 billion), through public offerings and private placements. This comprised €1.4 billion in Pfandbriefe (Q1 2016: €1.3 billion), and €1.2 billion (Q1 2016: €1.0 billion) in unsecured issues. Once again, pbb also placed issues in non-euro currencies, namely in US dollars, pound sterling and Swedish krona. New issue spreads narrowed significantly compared to the first quarter of 2016.

3. Income statement

At €103 million, **net interest income** was in line with the figure for the corresponding previous year's period (Q1 2016: €102 million). NII benefitted from lower interest expenses, reflecting the refinancing of higher-yielding liabilities at more favourable terms. At €31.7 billion, the average aggregate volume of interest-bearing loans in Commercial Real Estate Finance and Public Investment Finance matched the level of the previous year (Q1 2016: €31.4 billion), whereas the volume of the non-strategic Value portfolio continued to decline, in line with pbb's strategy. Non-recurring income contributions from prepayment fees were lower during the period under review (€8 million – Q1 2016: €11 million). In addition, the first quarter of 2016 benefited from non-recurring income of €5 million (Q1 2017: € nil). Operative net interest income – excluding prepayment fees and other non-recurring effects – rose to €95 million (Q1 2016: €86 million). Net fee and commission income from non-accruable fees amounted to €3 million (Q1 2016: €2 million).

Loan loss provisions remained at a low level (net additions of €2 million) during the first quarter of 2017, compared to a flat figure for the same quarter of the previous year. Whilst specific allowances for a small number of Real Estate Finance exposures were raised by €4 million net, portfolio-based allowances of €2 million were released.

General administrative expenses of €50 million were higher than in the same quarter of the previous year (Q1 2017: €45 million), reflecting increases in both personnel and non-personnel expenses. The increase in personnel expenses was expected; it reflected a reduction of expenses in the previous year's period, due to provisions for disbursements recognised in prior periods which were fully charged off in 2016. Non-personnel expenses included expenses for a bank-wide project for the implementation of new regulatory requirements.

As in the same quarter of the previous year, **net other operating income/expenses** in the amount of €–8 million (Q1 2016: €–14 million) predominantly included €20 million (Q1 2016: €21 million) in bank levy expenses for the full financial year 2017; this was partly compensated by net income of €7 million from the sale of assets from the non-strategic Value portfolio, as well as from other items. The previous year's figure included positive non-recurring income of €5 million.

Negative net trading income of €–2 million (Q1 2016: €–5 million) was largely attributable to the pull-to-par effect, according to which the present value of derivatives approaches zero towards maturity.

A changed internal risk assessment for a Southern European region contributed to **net income from financial investments** of €1 million (Q1 2016: €4 million).

The **net income from hedging relationships** of €1 million (Q1 2016: €1 million) was due exclusively to hedge inefficiencies.

Net miscellaneous income/expenses in the amount of €1 million (Q1 2016: € nil) was due to the reversal of restructuring provisions.

After taking **income taxes** of €9 million (Q1 2016: €11 million) into consideration, **profit after taxes** totalled €38 million for the first quarter of 2017 (Q1 2016: €34 million).

4. Total assets

Total assets of €61.2 billion at the end of the first quarter of 2017 were slightly lower than at the end of the previous year (December 2016: €62.6 billion), due to a lower cash reserve, as well as lower market values of derivatives.

5. Regulatory indicators

("fully phased-in“, i.e. after the lapse of all transitional arrangements under Basel III)

The CET1 ratio rose to 19.2% as at 31 March 2017 (December 2016: 19.0%), and the own funds ratio to 21.9% (December 2016: 20.7%). The Leverage Ratio stood at 4.3% (December 2016: 4.2%),

Consolidated Income Statement of pbb Group
(in accordance with IFRS, € million)

	2016					2017
	Q1	**Q2**	**Q3**	**Q4**	**FY**	**Q1**
Operating income	90	91	214	113	508	98
Net interest and similar income	102	93	97	112	404	103
Net fee and commission income	2	1	2	3	8	3
Net trading income	-5	-2	-3	4	-6	-2
Net income from financial investments	4	1	123	-3	125	1
Net income from hedging relationships	1	-1	1	5	6	1
Net other operating income/expenses	-14	-1	-6	-8	-29	-8
Loan loss provisions	-	-	3	-4	-1	-2
General administrative expenses	-45	-49	-53	-51	-198	-50
Net miscellaneous income/expenses	-	-	-5	-3	-8	1
Pre-tax profit/loss	45	42	159	55	301	47
Income taxes	-11	-10	-38	45	-104	-9
Profit/loss after taxes	34	32	121	10	197	38

Overview of the pbb Group

	2016	**2017**
	Q1 2016	**Q1 2017**
Key financial indicators		
Earnings per share (€)	0.25	0.28
Cost/income ratio (in %)	50.0	51.0
Return on equity (%)		
▪ before taxes	6.7	6.7
▪ after taxes	5.1	5.4
Balance sheet figures (€ billion)	**31 Dec 2016**	**31 Mar 2017**
Total assets	62.6	61.2
Equity	2.8	2.8
Regulatory indicators (%)		
CET1 ratio (fully phased in)	19.0	19.2
Own funds ratio (fully phased in)	20.7	21.9
Leverage Ratio (fully phased in)[1]	4.2	4.3

1) The Leverage Ratio is defined as the ratio between tier 1 capital and the relevant exposure according to CRR.

Note:
All quarterly figures quoted in this press release are unaudited, whilst figures for the 2016 financial year are audited.

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