PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

News Release

DEUTSCHE PFANDBRIEFBANK

pbb increases pre-tax profit during the second quarter of 2017

- Pre-tax profit up over 2Q16, by more than 30% to €56 million – marked year-on-year increase also in the first half of 2017
- Net interest income with positive development thanks to relatively stable margins in client business and reduced funding costs
- New business of €5 billion in the first half of 2017 higher than the previous year – gross new business margin up during the second quarter
- Following a successful first half of the year, pbb now expects pre-tax profit to be at the upper end or slightly above the guidance of €150-170 million

Munich, 14 August 2017 – During the second quarter of 2017, Deutsche Pfandbriefbank (pbb) significantly increased pre-tax profit to €56 million (Q2 2016: €42 million; consolidated figures in accordance with IFRS). The bank also markedly exceeded the previous year's figure on a half-year basis, with €103 million (6m 2016: €87 million). This performance was driven by a positive development of net interest and commission income, which totalled €105 million in the second quarter and €211 million in the first half of the year (Q2 2016: €94 million, 6m 2016: €198 million). As in the prior year, no loan loss provisioning was required during the first half-year. General and administrative expenses rose in line with expectations to €52 million during the second quarter, reaching €102 million for the first six months of the year (Q2 2016: €49 million, 6m 2016: €94 million). This development in particular reflects increasing costs in relation to regulatory demands as well as a technical effect in personnel expenses, which had benefited from the utilisation of provisions in 2016.

New business rose to €5 billion at the end of the first half of the year, slightly exceeding the volume of the same period last year (6m 2016: €4.7 billion; new business numbers including extension beyond one year). The bank's strategic portfolio grew by €0.5 billion to €32 billion versus year-end 2016, while the non-strategic portfolio was reduced further – as planned – to €14.6 billion (31 December 2016: €15.8 billion).

Following good results in the first half of the year, pbb now expects pre-tax profit in the full-year of 2017 to be at the upper end or slightly above the guidance of €150-170 million which the bank had stated at the beginning of the year. In terms of new business, pbb confirmed its guidance of a volume between €10.5-12.5 billion. However, given pbb's consistently risk-conservative approach to new business, an intensely competitive environment, and challenging credit markets, repayments were higher than expected during the first half of the year, whilst loan drawdowns fell short of expectations. Accordingly, the bank no longer expects its strategic financing volume to grow markedly, but now anticipates a moderate increase.

CEO **Andreas Arndt** said: "Relatively stable margins in our client business and reduced funding costs produced a positive performance for net interest and commission income in the first half of the year. Against this background, pbb is well on track. Material challenges that pbb – as with the industry as a whole – continues to face are the competitive situation and fiercer regulation, inciting higher costs and risk-weighted assets."

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

1. New business

In **Commercial Real Estate Finance**, pbb originated €4.5 billion of new business in the first half of the year (6m 2016: €4.5 billion). About half of this volume was generated in Germany and another 40% in other core markets: the United Kingdom (13%), the US (11%), Central and Eastern Europe (10%) as well as France (9%).

Average gross new business margin was up in the second quarter to around 170 basis points (BP, Q1 2017: >160BP) bringing the number for the first half year to 165 BP, only slightly below the corresponding number of around 170 BP which pbb achieved in the same period of last year. Notwithstanding the positive margin development during the second quarter, the average loan-to-value ratio for new commitments fell to 60% during the first half of the year (Q1 2017: 62%, 6m 2016: 63%).

New business originated in **Public Investment Finance** amounted to approximately €0.5 billion during the first half-year of 2017 (6m 2016: €0.2 billion), while average maturity slightly increased to 9 years (6m 2016: 8.2 years) and average gross new business margin remained stable at >90 BP.

2. Funding

During the first half of the current year, pbb raised new long-term funding of €4.5 billion (6m 2016: €3.5 billion). Pfandbriefe accounted for €2.3 billion (6m 2016: €1.8 billion), unsecured issues for €1.7 billion (as in the previous year) and Tier 2 issues for €0.5 billion. Once again, pbb also placed issues in non-euro currencies, namely in US Dollars, Pound Sterling and Swedish Krona. The spreads, i.e. risk premiums, paid on unsecured issues were down significantly on the first half of 2016, while spreads for Pfandbrief issues remained stable year-on-year.

3. **Regulatory indicators** ("fully phased-in“)

The CET1 ratio rose to 19.4% as at 30 June 2017 (30 June 2016: 19.0%), and the own funds ratio to 24.8% (30 June 2016: 20.7%). The Leverage Ratio stood at 4.3% with almost no change year-on-year (30 June 2016: 4.2%),

4. Income statement

Net interest income increased to €206 million during the first half of the year (6m 2016: €195 million). The increase was due to lower interest expenses, which declined reflecting maturities of higher-yielding liabilities. Positive effects from prepayment fees amounted to €16 million, thus slightly ahead of the previous year's level (6m 2016: €14 million). At €31.8 billion, the average aggregate volume of interest-bearing financing volumes in the strategic portfolio was slightly above the same period of the previous year (6m 2016: €31.3 billion), whereas the volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy. **Net fee and commission income** from non-accruable fees amounted to €5 million (6m 2016: €3 million).

As in the same period of the previous year, **loan loss provisions** were flat. Whilst specific allowances for a small number of real estate finance exposures were raised by €4 million net (6m 2016: €1 million), portfolio-based allowances of €4 million net were reversed (6m 2016: €0 million).

General and administrative expenses rose to €102 million (6m 2016: €94 million), reflecting higher personnel expenses as well as non-personnel expenses. During the first half of 2017, personnel expenses reached a normalised level, whilst the average staffing level declined; in 2016, personnel expenses had benefited from the utilisation of provisions.. The increase in non-personnel expenses was due in particular to a bank-wide project for the optimisation of the finance and risk IT target architecture, which comprises, inter alia, the implementation of the requirements resulting from IFRS 9 and other regulatory changes.

pbb disclosed a balanced **net trading income** (6m 2016: €–7 million). The pull-to-par effect translated into expenses of €4 million (6m 2016: €7 million), measurement effects of interest rate and exchange rate induced derivatives resulted in expenses of €1 million (6m2016: income of €8 million). This was offset by income from the credit risk measurement of pbb as well as its derivatives counterparties (the so-called bilateral Credit Valuation Adjustment) in the amount of €5 million (6m 2016: expenses of €8 million).

Reversals of portfolio-based allowances resulting from the changed internal risk assessment for a Southern European region contributed to the positive **net income from financial investments** of €1 million. In the same period of the previous year, net income from financial investments of €5 million resulted in particular from the disposal of securities held in the liquidity buffer.

The **net income from hedging relationships** of €1 million (6m 2016: €0 million) was due exclusively to ineffective portions from fair value micro-hedge relationships within the range permitted under IAS 39 (80% to 125%).

Net other operating income/expenses amounted to €–10 million (6m 2016: €–15 million). It was burdened, inter alia, by the bank levy for the full year of 2017 where, taking into account pledged collateral, pbb recognised expenses of €19 million (6m 2016: €21 million). Additional effects from various matters totalled in a positive amount of €9 million.

After taking income taxes of €18 million (6m 2016: €21 million) into consideration, **profit after taxes** totalled €85 million for the first half of 2017 (6m 2016: €66 million).

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

	2016		2017		
	Q2	**6m**	**Q1**	**Q2**	**6m**
Operating income	91	181	98	105	203
Net interest and similar income	93	195	103	103	206
Net fee and commission income	1	3	3	2	5
Net trading income	-2	-7	-2	2	-
Net income from financial investments	1	5	1	-	1
Net income from hedging relationships	-1	-	1	-	1
Net other operating income/expenses	-1	-15	-8	-2	-10
Loan loss provisions	-	-	-2	2	-
General and administrative expenses	-49	-94	-50	-52	-102
Net miscellaneous income/expenses	-	-	1	1	2
Pre-tax profit/loss	42	87	47	56	103
Income taxes	-10	-21	-9	-9	-18
Profit/loss after taxes	32	66	38	47	85

Overview of the pbb Group

	2016	2017
	6m16	**6m17**
Key financial indicators		
Earnings per share (€)	0.49	0.63
Cost/income ratio (in %)	52	50
Return on equity (%)		
▪ before taxes	6.5	7.4
▪ after taxes	4.9	6.1
Balance sheet figures (€ billion)	**30 June 2016**	**30 June 2017**
Total assets	62.6	60.7
Equity	2.8	2.7
Regulatory indicators (%)		
CET1 ratio (fully phased-in)	19.0	19.4
Own funds ratio (fully phased-in)	20.7	24.8
Leverage Ratio (fully phased-in)	4.2	4.3

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

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