News Release

pbb posts another set of good results for the third quarter of 2017

- PBT of €51 million in Q3 2017, and of €154 million in 9m 2017 – higher net interest and commission income, whilst loan loss provisions remain low
- Pre-tax profit of €195 million to €200 million expected for the full financial year 2017
- RWA increase by around €2 billion due to ECB-driven harmonisation of risk models – pbb considers this process concluded to the greatest possible extent
- Low interest rates and competitive markets will prevail throughout 2018

Munich, 13 November 2017 – As announced on 2 November 2017, Deutsche Pfandbriefbank AG (pbb) showed continued good performance during the third quarter of 2017 and raised its full-year pre-tax profit guidance. pbb disclosed consolidated pre-tax profit of €51 million (IFRS, unaudited) for the third quarter, and €154 million for the first nine months of 2017. Therefore, pbb was clearly ahead of the adjusted figures of €27 million and €114 million respectively for the same periods of the previous year (Q3 2016: €159 million, reported; 9m 2016: €246 million, reported); in Q3 2016, €132 million in non-recurring income from the reversal of write-downs related to Heta Asset Resolution AG (Heta) was recognised. On 2 November 2017, pbb once again raised its guidance for the full year 2017, to achieve pre-tax profit of between €195 million and €200 million, given the anticipated stable development in the fourth quarter.

These good results for the first nine months of the year were driven by positive developments in net interest andcommission income (9m 2017: €321 million; 9m 2016: €297 million), and by loan loss provisions remaining low (9m 2017: net addition of €2 million; 9m 2016: net release of €3 million), whilst general and administrative expenses increased slightly, in line with expectations to €155 million (9m 2016: €147 million).

New business rose to €7.4 billion during the first nine months of the financial year, distributed almost evenly amongst the quarters. New business slightly exceeded the volume of the same period of the previous year (9m 2016: €6.7 billion), and was in line with the expectations for the full year 2017 (€10.5 billion - €12.5 billion).

Andreas Arndt, CEO of pbb, said: "The good results for the first nine months of the financial year are all the more remarkable since the market environment continues to be highly competitive, and pbb has maintained its conservative approach to risk. Higher net interest income due to lower funding costs, and low loan loss provisions, were the key drivers of this development. We expect further stable development in the fourth quarter, and have therefore increased our guidance for the full year 2017 to pre-tax profit of between €195 million and €200 million at the beginning of November."

Along with the third-quarter results, pbb also provided a first **outlook for 2018**. pbb expects the low interest rate environment and strong competitive pressure to continue in Europe, and commercial real estate markets to remain stable, albeit at elevated pricing levels. Against this background, pbb provides cautious earnings projections for 2018. "We presume that market conditions are set to remain challenging. The positive factors of 2017 cannot be taken as a given for 2018. Therefore, we will again make conservative projections for 2018, particularly in terms of risk costs," said Mr Arndt.

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pbb will provide its guidance for the full year 2018, along with the disclosure of results for the financial year 2017, at the beginning of March 2018, including its dividend proposal.

FACTS AND FIGURES – Q3 2017/9m 2017

1. New business

At €6.9 billion, commercial Real Estate Finance accounted for the majority of new business originated in the first nine months of the year (9m 2016: €6.3 billion). In line with pbb's corporate strategy, about half of this volume was generated in Germany, and about one-third in other core markets, such as the United Kingdom, France, and Central and Eastern Europe; 10% was attributable to the US, where pbb relaunched its business activities in Q3 2016.

The average gross new business margin in commercial Real Estate Finance was above 160 basis points (BP) year-to-date, thus below the level for the same period of the previous year (9m 2016: ~170 BP). This was particularly due to pbb's conservative country and product mix of the new business origination.

The average loan-to-value ratio for new commitments of 60% declined slightly when compared to the same period of the previous year (9m 2016: 62%), while average maturity remained almost stable at 5.1 years.

2. Funding

During the first nine months of the current year, pbb raised new long-term funding of €5.3 billion (9m 2016: €4.8 billion). Pfandbriefe accounted for €3.2 billion (9m 2016: €2.7 billion), unsecured issues for €2.1 billion – unchanged from the previous year. Subordinated issues contributed €0.5 billion. Once again, pbb also placed issues in non-euro currencies, namely in US dollars, pound sterling and Swedish krona.

Issuance Spreads, i.e. risk premiums, declined considerably for all types of funding instruments compared to the same period of the previous year. This effect can also be observed in the positive development of net interest income, which benefited from low costs for new issues as well as maturities of higher-spread funding.

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

As at the end of September 2017, pbb's **common equity tier 1 (CET1) ratio** declined to 17.1% (30 June 2017: 19.4% excluding interim profits; the ratio as at September 2017 includes the interim profit). The CET1 ratio thus remains clearly above minimum regulatory requirements, in line with the SREP 2017 (9% excluding the countercyclical capital buffer) – and with pbb's medium-term ambition of more than 12.5%.

The decline in the ratio was due in particular to the increase in risk-weighted assets (RWA) during the third quarter of the year, to €14.7 billion. Around €2 billion of the RWA increase was attributable to the industry-wide harmonisation of risk models which the ECB is currently instigating throughout Europe, and individually for each institution. pbb assumes that the ECB process will not result in any additional considerable increase in RWA.

What is pending, however, are potential adjustments due to new regulations imposed by the Basel Committee on Banking Supervision at the Bank for International Settlements – also known as **Basel IV**. However, from today's perspective, any additional requirements resulting from Basel IV would be phased in via several steps between 2021 and 2027.

As at the end of September 2017, pbb's **own funds ratio** declined to 21.8% given the increase in RWA (June 2017: 24.8% excluding interim profits; the ratio as at September 2017 includes the interim profit). The **Leverage Ratio** increased slightly, to 4.5% (June 2017: 4.3%).

Following the announcement of the new risk weights, ECB indicated that it would lower pbb's **SREP** requirement ("Pillar 2 requirement") by 0.5 percentage points for 2018. However, this will probably be offset by an increase of 0.625 percentage points applicable to all banks, given the capital conservation buffer being introduced in stages. Taking into account the countercyclical capital buffer, this results in pbb's SREP requirement for the CET1 ratio of 9.325% for 2018, following 9.2% in 2017.

pbb expects only minor implications from the first-time adoption of **IFRS 9** applicable as from 1 January 2018.

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4. Income statement

The good development of **net interest income** (€315 million; 9m 2016: €292 million) was due to maturities of higher-yielding liabilities and considerably lower funding spreads, which led to lower interest expenses. Moreover, at €31.8 billion, the average aggregate volume of interest-bearing loans in Real Estate Finance and Public Investment Finance was marginally above the same period of the previous year (9m 2016: €31.3 billion), whereas the volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy. During the period under review, the average margin of the overall portfolio was also slightly above the same period of the previous year, thus contributing to current net interest income. Positive non-recurring effects from prepayment fees and from the redemption of liabilities amounted to €22 million, and were below the previous year's level (9m 2016: €29 million).

Net fee and commission income from non-accruable fees amounted to €6 million (9m 2016: €5 million).

Loan loss provisions were recognised in an amount of €2 million (9m 2016: reversals of €3 million). Whilst specific allowances for a small number of Real Estate Finance exposures were raised by €4 million in total, portfolio-based allowances of €1 million net were reversed. This was offset by €1 million in payments received on loans and receivables previously written off.

General and administrative expenses totalled €53 million in the third quarter of 2017, unchanged versus the same period of 2016, but the 9m 2017 figure (€155 million) was higher than 9m 2016 (€147 million). During the same period of the previous year, personnel expenses benefited from the utilisation of provisions. Personnel expenses have reached a normalised level in the current financial year, whilst the average staffing level declined. Non-personnel expenses were in line with the previous year's levels; in particular, this item includes expenses for the implementation of new regulatory requirements.

Net trading income amounted to €–4 million (9m 2016: €–10 million). Expenses were incurred from the pull-to-par effect (€7 million; 9m2016: €9 million), as well as from interest rate-related measurement effects of derivatives (€2 million; 9m2016: revenues of €8 million). This was offset by income from the credit risk measurement of pbb as well as its derivatives counterparties in the amount of €5 million (9m 2016: expenses of €9 million).

The Group disclosed a balanced **net income from financial investments** (9m 2016: €128 million). Expenses of €1 million were incurred from net additions to portfolio-based allowances following the changed risk assessment for some Southern European regions. This item was offset by net income from securities disposals in the same amount. During the same period of the previous year, pbb recognised income of €123 million from non-recurring effects related to Heta.

Net income from hedging relationships was balanced (9m 2016: €1 million), given that the valuation results of the underlying and hedging transactions offset each other in the micro fair value hedge and portfolio hedge accounting.

Net other operating income/expenses (€–8 million; 9m 2016: €–21 million) was burdened, inter alia, by the bank levy for the full year of 2017. Taking into account pledged collateral amounting to 15%, pbb recognised expenses of €19 million (9m 2016: €21 million). Various other factors translated into additional income in the amount of €11 million: the disposal of assets held in pbb's non-strategic Value Portfolio, and VAT reimbursements, together more than offset the expenses incurred from additions to provisions and the impairment losses recognised in connection with a salvage acquisition in Southern Europe.

Net miscellaneous income/expenses
Net miscellaneous income/expenses in the amount of €2 million (9m 2016: €–5 million) was predominantly due to the reversal of restructuring provisions.

Expenses for current taxes of €33 million (9m 2016: €28 million) and income from deferred taxes of €5 million (9m 2016: expenses of €31 million) resulted in **total tax expenses** of €28 million (9m 2016: €59 million). Deferred tax expenses in the previous year resulted from reversals of temporary differences, largely due to the non-recurring effects related to Heta, as well as close-outs and novations of derivatives.

Note to editors:

We have attached tables providing information regarding the income statement, and concerning key financial indicators.

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

	2016[1)]		2017			
	Q3	9m	Q1	Q2	Q3	9m
Operating income	**214**	**395**	**98**	**105**	**106**	**309**
Net interest and similar income	97	292	103	103	109	315
Net fee and commission income	2	5	3	2	1	6
Net trading income	-3	-10	-2	2	-4	-4
Net income from financial invest-ments	123	128	1	-	-1	-
Net income from hedging relationships	1	1	1	-	-1	-
Net other operating income/expenses	-6	-21	-8	-2	2	-8
Loan loss provisions	**3**	3	**-2**	**2**	**-2**	**-2**
General administrative expenses	**-53**	**-147**	**-50**	**-52**	**-53**	**-155**
Net miscellaneous income/expenses	**-5**	**-5**	**1**	**1**	**-**	**2**
Pre-tax profit/loss	**159**	**246**	**47**	**56**	**51**	**154**
Income taxes	**-38**	**-59**	**-9**	**-9**	**-10**	**-28**
Profit/loss after taxes	**121**	**187**	**38**	**47**	**41**	**126**

1) including non-recurring income from Heta

Overview of the pbb Group

	2016[1)]	2017
	9m 2016	9m 2017
Key financial indicators		
Earnings per share (€)	1.39	0.94
Cost/income ratio (in %)	37.2	50.2
Return on equity (%)		
▪ before taxes	12.2	7.4
▪ after taxes	9.3	6.0
	30 Sep 2016	**30 Sep 2017**
Balance sheet figures (€ billion)		
Total assets	65.0	57.9
Equity	2.8	2.8
Regulatory indicators (%)		
CET1 ratio (fully phased in)	19.4	17.1[2)]
Own funds ratio (fully phased in)	24.8	21.8[2)]

1) including non-recurring income from Heta
2) including interim profit

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