

# pbb Banks' Day 2014

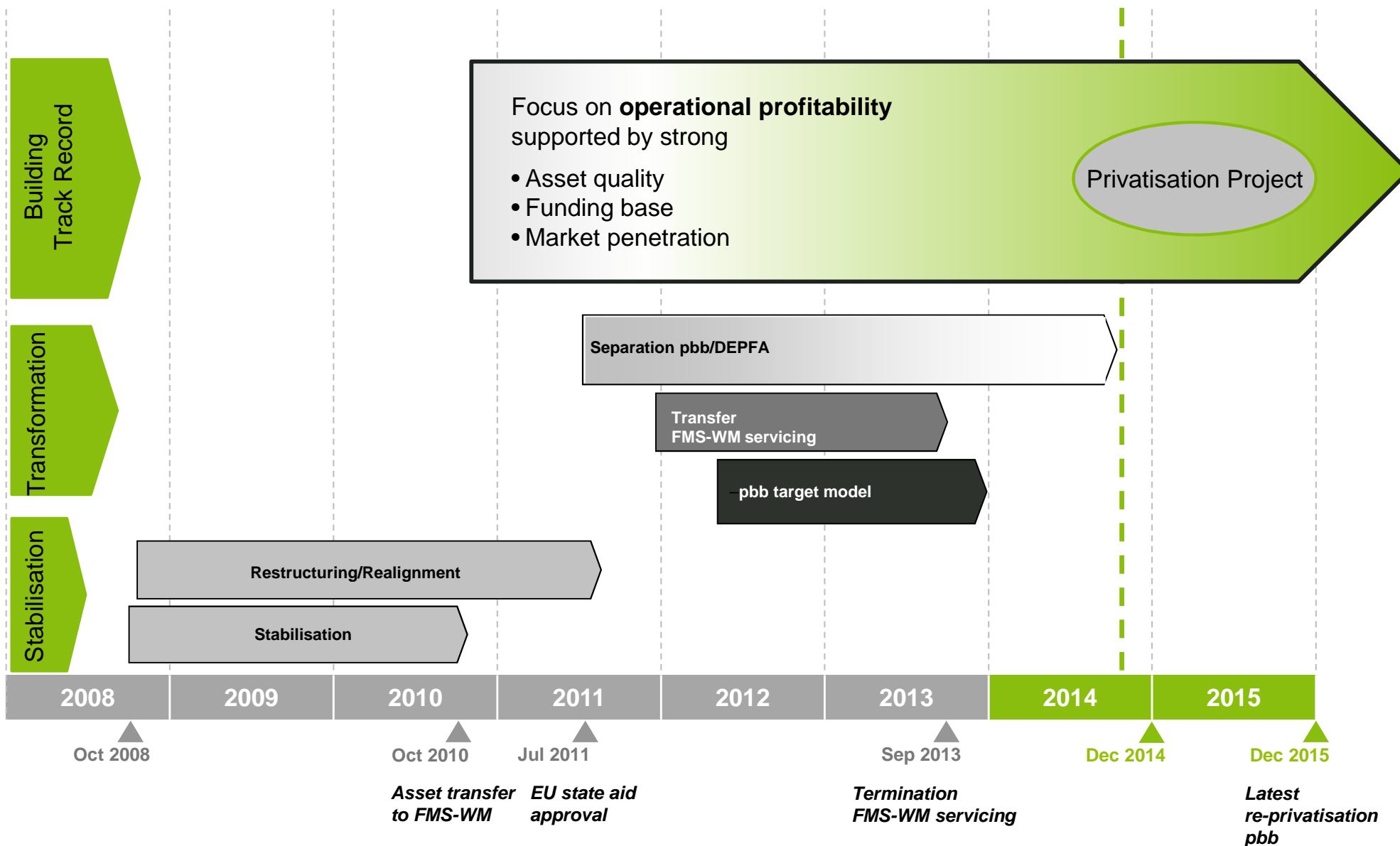
Frankfurt, 2<sup>nd</sup> December 2014

## pbb Banks' Day 2014

pbb – a leading European specialist bank  
for real estate and public investment finance

Thomas Köntgen, Co-CEO

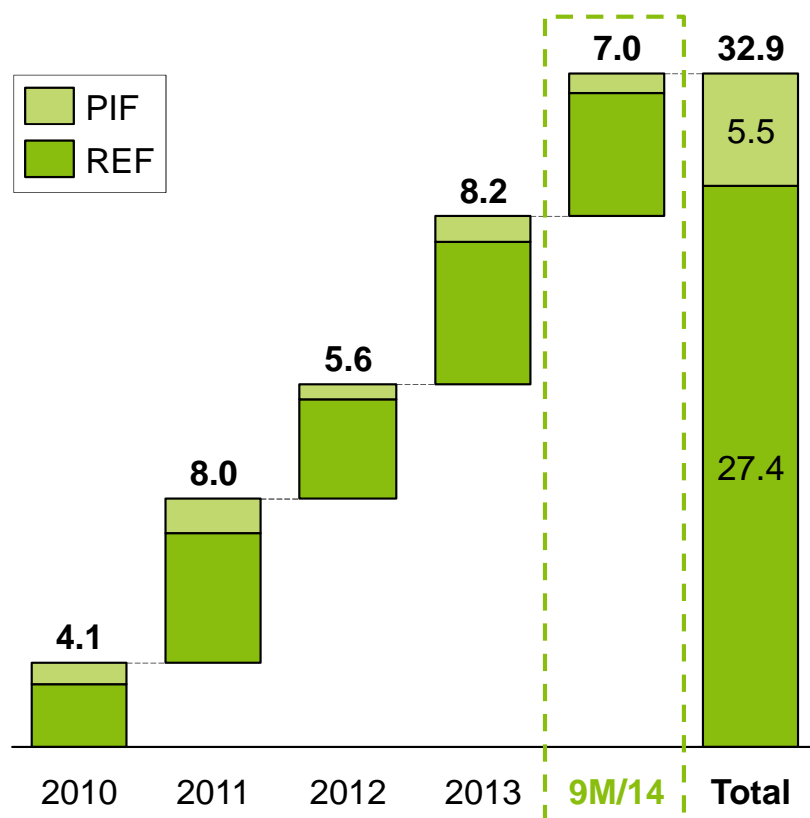
pbb has consistently delivered on its restructuring as well as repositioning in the lending and funding markets



Successful new business activities reflect pbb's standing as one of the leading players in its segment with a profitable track record of more than 4 years

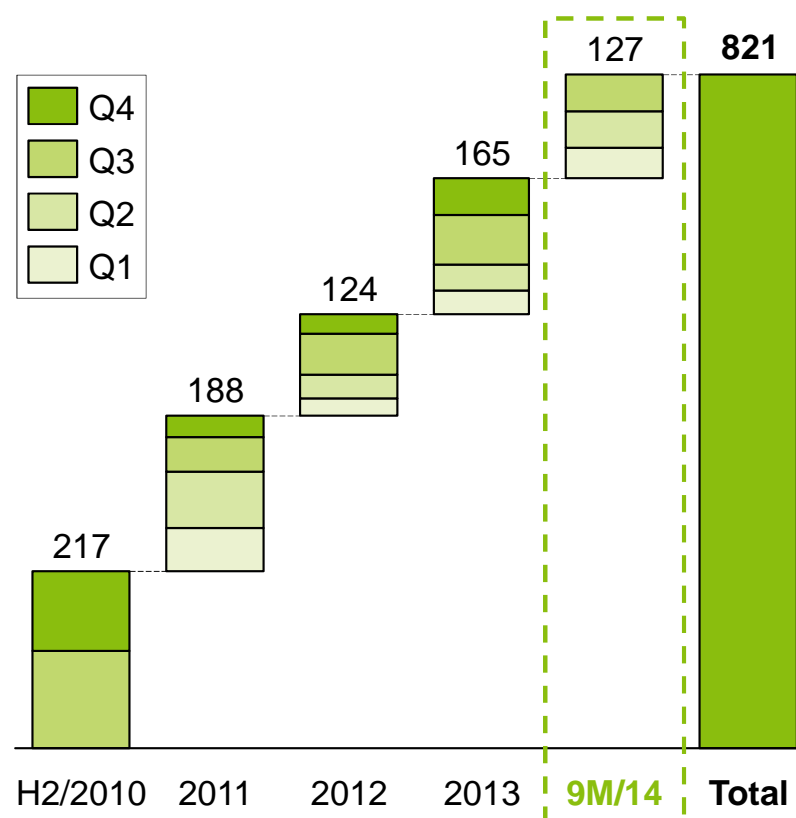
**New business**

EUR billions (Commitments, incl. extensions >1 yr)



**Pre-tax profit**

EUR millions (IFRS)



#### Market environment

- Increasing **property values** in most European countries lead to declining **yields**, but partly compensated by **rent** increases
- However, high demand for **property investments** continues
  - Historically low interest rates promote search for higher yielding assets
  - Yield gap vs. government bonds remains attractive
  - Increasing competition leads to margin pressure and thus to more favorable financing conditions – high level of early repayments continues
- Further positive **development in pbb's core real estate markets** expected near-term albeit lower growth rates, but assuming no serious economic shocks
  - Development in Germany, UK and Sweden expected to be above-average
  - Stable development expected in France and CEE
- While **pbb's portfolio margins** still improve and new business margins in Q3 were resilient, margins on new business/pipeline are under pressure

# Real Estate Finance

No signs of overheating in German core locations for the next twelve months

Office	12M Outlook	Berlin	Düsseldorf	Frankfurt a.M.	Hamburg	Munich
	Prime rents	→	→	→	→	→
	Prime yields	→	→	→	→	→
	Supply	→	↗	↗	→	↗
	Demand	→	→	→	→	→
Retail	12M Outlook	Berlin	Düsseldorf	Frankfurt a.M.	Hamburg	Munich
	Prime rents	↗	↗	↗	↗	↗
	Prime yields	→	↗	↗	→	→
	Supply	→	→	→	→	→
	Demand	↗	→	→	→	→

Financing positive due to good market situation
 Financing possible subject to covering against prospective expected normal market corrections
 Financing only possible subject to substantial covering against prospective expected substantial market corrections

# Real Estate Finance

## pbb's strategic European core markets expected to stay intact

Office	12M Outlook	London	UK regions	Paris	France regions	Sweden	Finland
	Prime rents	↗	↗	→	→	→	→
	Prime yields	→	→	→	↘	↘	↘
	Supply	↗	↗	→	→	→	→
	Demand	↗	↗	→	→	→	→
Retail	12M Outlook	London	UK regions	Paris	France regions	Sweden	Finland
	Prime rents	↗	↘	↗	→	→	↘
	Prime yields	→	→	↘	↘	→	↘
	Supply	↗	↗	→	→	→	→
	Demand	↗	→	↗	→	→	→

Financing positive due to good market situation

Financing possible subject to covering against prospective expected normal market corrections

Financing only possible subject to substantial covering against prospective expected substantial market corrections

#### Market position/ expertise

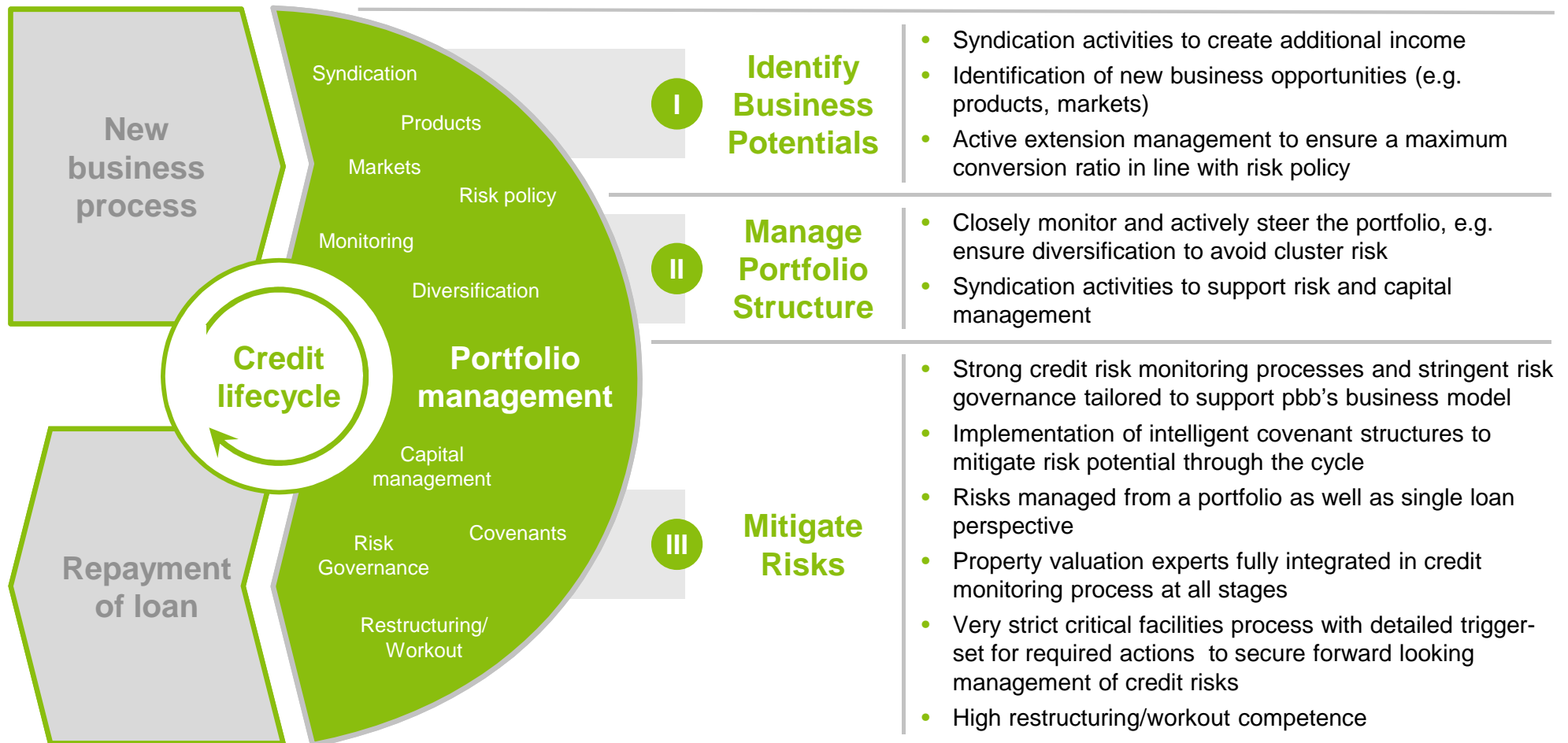
- ✓ pbb – a leading European player ranking among top 3 German players (#6 in 2010)
- ✓ Broad customer base, consisting of global as well as regional customers with long-standing relationships
- ✓ Long-term experience and financing know-how
- ✓ European set-up supports stabilisation of business volumes and opens up market potentials with regards to pan-European transactions
- ✓ CRE-platform with international offices and specialised local professionals
- ✓ Highly developed risk management

#### Further potential

- ▶ Pro-active and ongoing management of existing loan book/portfolio to maximise value and profitability
- ▶ Optimise existing client relationships – further expansion of financing partnerships, also with non-banks
- ▶ Continuously identify new business opportunities (e.g. products, markets)
- ▶ Application of existing structuring competence
- ▶ Ongoing optimisation of process efficiency in order to cope with larger volumes and complexity
- ▶ Further services – e.g. expand existing syndication activities to create additional income



Market environment	<ul style="list-style-type: none"><li>■ Municipalities appreciate banks with advisory capabilities concerning future cash flow implications</li><li>■ Restrictions of public budgets and backlog of infrastructure investments lead to growing market</li><li>■ Stabilisation of pbb's overall business and earnings base through the cycle – longer maturities compared to REF reduce volatility of earnings</li></ul>
Market position/ expertise	<ul style="list-style-type: none"><li>✓ pbb in a strong position to benefit from growth opportunities</li><li>✓ Broad customer base with long-standing relationships</li><li>✓ Long-term experience with high financing know-how</li><li>✓ High synergies with REF regarding e.g. expertise, franchise, processes and risk management – public sector is major user and provider of real estate</li></ul>
Further potential	<ul style="list-style-type: none"><li>▶ Optimise existing client relationships</li><li>▶ Increase efficiency to improve hit rate and cost base, e.g. establishment of fast track for credit approvals below defined threshold</li><li>▶ pbb recently entered segments and markets with higher margins (e.g. UK, PPP construction facilities)</li><li>▶ Build on and expand of syndication activities to create additional income</li></ul>



## pbb Banks' Day 2014

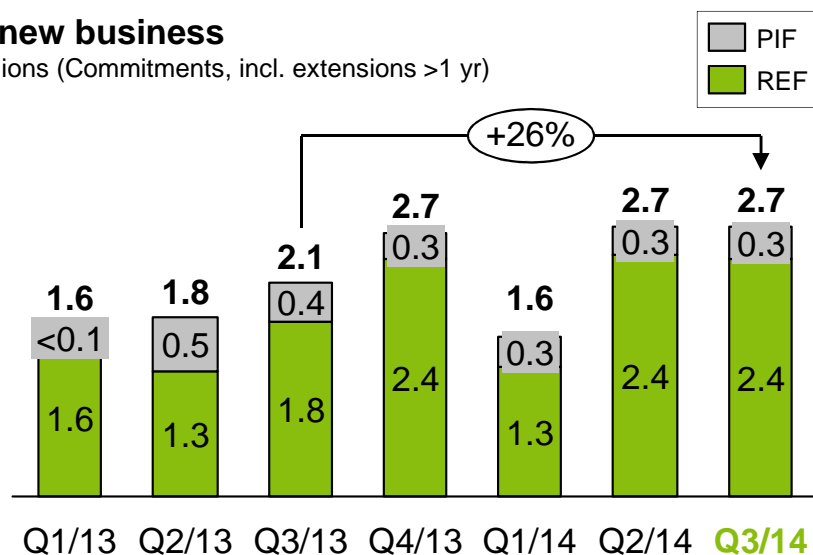
Successful development after nine months 2014,  
total new business volume reaches EUR 7.0 billion

Dr. Bernhard Scholz, REF/PIF

## Strong new business in Q2 and Q3 brings total new business volume after nine months to EUR 7.0 bn (+26% y-o-y)

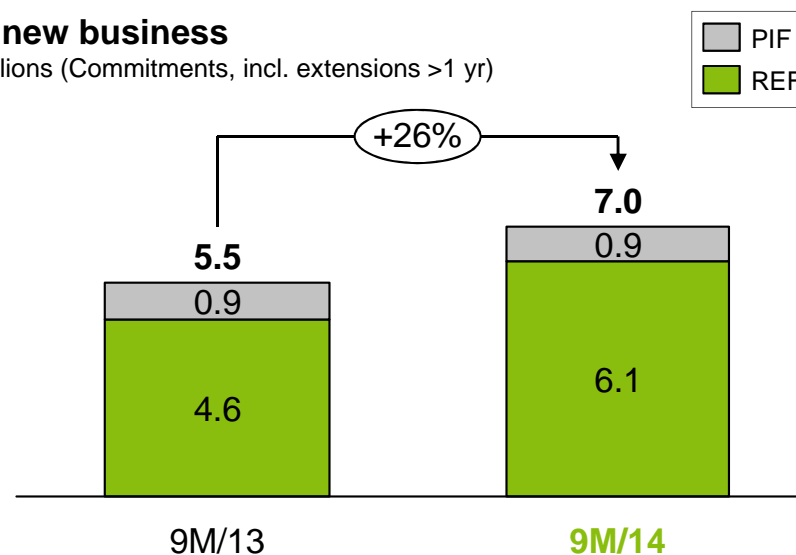
### Total new business

EUR billions (Commitments, incl. extensions >1 yr)



### Total new business

EUR billions (Commitments, incl. extensions >1 yr)



REF	2013	9M/14
Total new business	EUR 7.0 bn	EUR 6.1 bn
thereof: Extensions >1 year	EUR 1.7 bn	EUR 1.7 bn
No. of deals	131	113
Average maturity <sub>(legal maturity)</sub>	~4.4 yrs	~5.1 yrs
Average LTV <sub>(New commitments)<sup>1</sup></sub>	61%	63%
Average gross margin	>225 bp	>210 bp

- Lower avg. gross margin in 9M/14 reflects increased competition in core markets

PIF	2013	9M/14
Total new business	EUR 1.2 bn	EUR 0.9 bn
No. of deals	34	28
Average maturity <sub>(WAL)</sub>	~8.1 yrs	~6.3 yrs
Average gross margin	>100 bp	>70 bp

- Lower avg. gross margin in 9M/14 reflects higher share (50%) of lower margin German business (2013: 38%)

Note: Figures may not add up due to rounding 1 Avg. LTV (extensions): 68% (9M/14); 74% (2013)

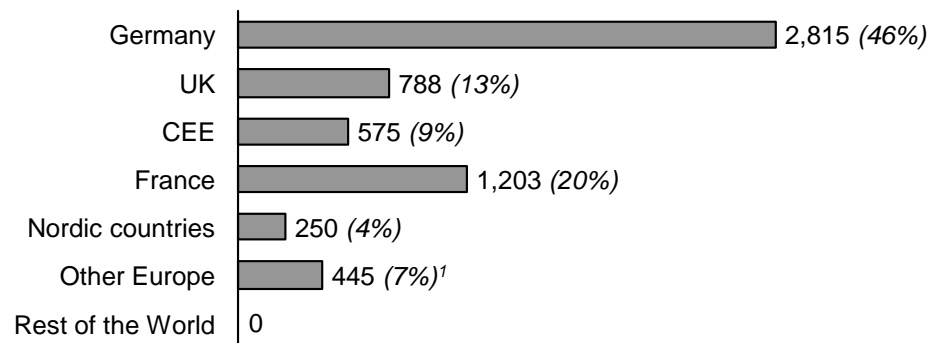
## New Business

### Real Estate Finance (REF)



#### New business: Regions

9M/2014: EUR 6,075 million (Commitments, incl. extensions >1 yr)



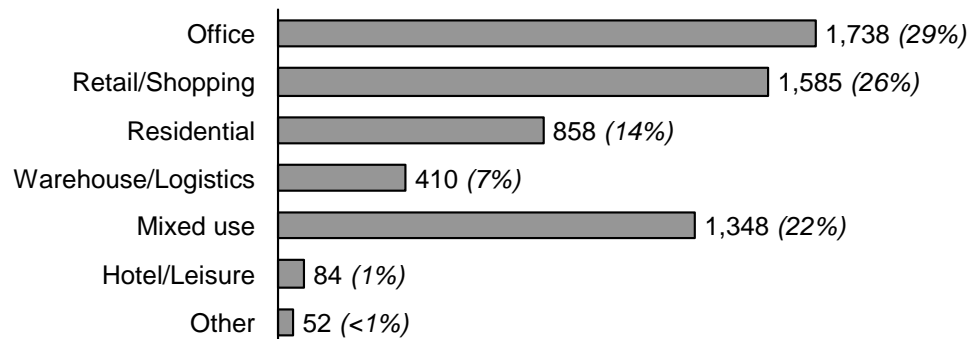
#### Portfolio: Regions

EUR billions (EaD, Basel III)

	12/13		09/14	
Germany	12.1	54%	12.3	51%
UK	3.5	16%	4.0	17%
CEE	2.1	9%	2.3	10%
France	1.8	8%	2.5	10%
Nordic countries	1.4	6%	1.5	6%
Other Europe	1.4	6%	1.3	5%
Rest of the World	<0.1	<1%	<0.1	<1%
<b>Total</b>	<b>22.2</b>	<b>100%</b>	<b>23.9</b>	<b>100%</b>

#### New business: Property types

9M/2014: EUR 6,075 million (Commitments, incl. extensions >1 yr)



#### Portfolio: Property types

EUR billions (EaD, Basel III)

	12/13		09/14	
Office	6.9	31%	7.3	30%
Retail/Shopping	6.2	28%	6.5	27%
Residential	4.9	22%	4.7	20%
Warehouse/Logistics	1.7	8%	2.0	8%
Mixed use	1.0	5%	1.5	6%
Hotel/Leisure	0.4	2%	0.5	2%
Other	1.2	5%	1.4	6%
<b>Total</b>	<b>22.2</b>	<b>100%</b>	<b>23.9</b>	<b>100%</b>

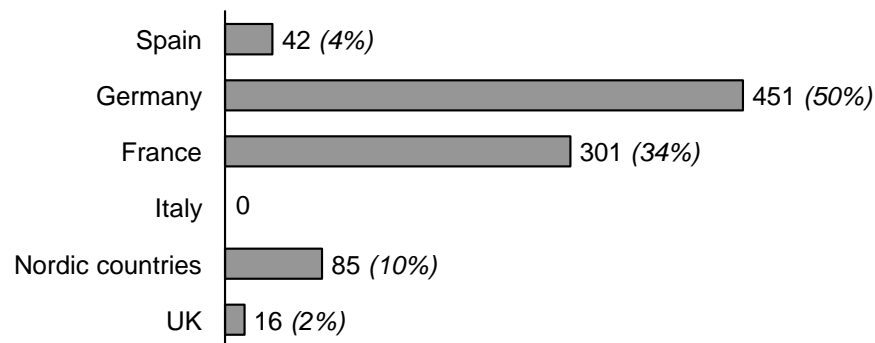
Note: Figures may not add up due to rounding 1 CH: EUR 243 mn; A: EUR 112 mn; L: EUR 40 mn (extensions); NL: EUR 39 mn (extensions); P: EUR 11 mn (extensions)

## New Business

### Public Investment Finance (PIF)

#### New business: Regions

9M/2014: EUR 895 million (New commitments)



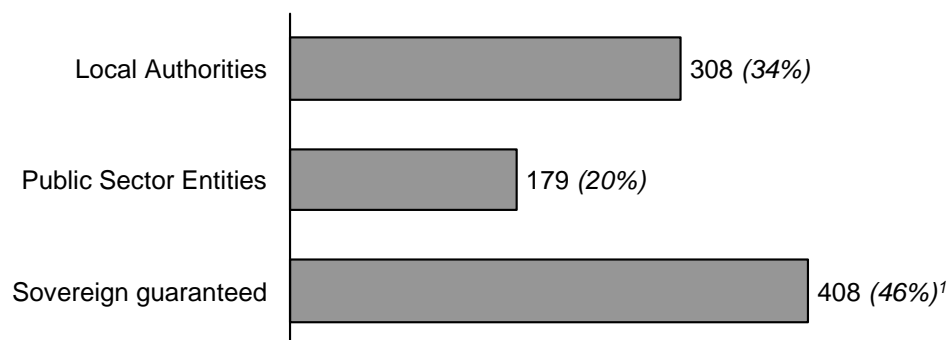
#### Portfolio: Regions

EUR billions (EaD, Basel III)

	12/13		09/14	
Spain	2.1	25%	2.1	23%
Germany	2.0	24%	2.5	27%
France	1.7	20%	1.9	21%
Italy	1.6	19%	1.6	17%
Nordic countries	0.2	2%	0.2	3%
Other Europe	1.0	10%	0.8	9%
<b>Total</b>	<b>8.4</b>	<b>100%</b>	<b>9.1</b>	<b>100%</b>

#### New business: Counterparty types

9M/2014: EUR 895 million (New commitments)



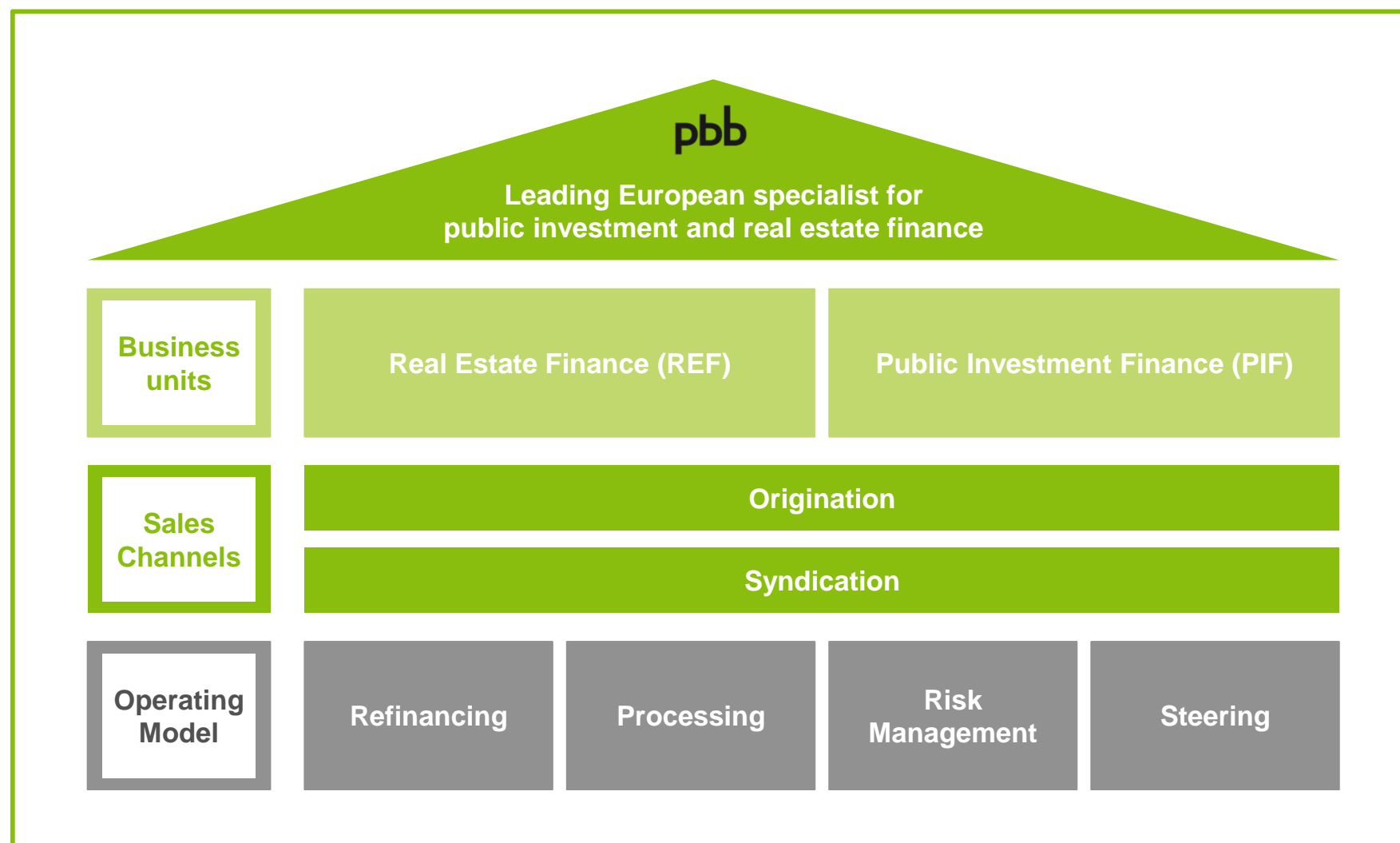
#### Portfolio: Counterparty types

EUR billions (EaD, Basel III)

	12/13		09/14	
Local Authorities	4.6	55%	4.2	47%
Public Sector Entities	1.8	21%	2.2	24%
Corporates and other	1.7	20%	1.7	19%
Sovereign	0.3	4%	0.9	10%
<b>Total</b>	<b>8.4</b>	<b>100%</b>	<b>9.1</b>	<b>100%</b>

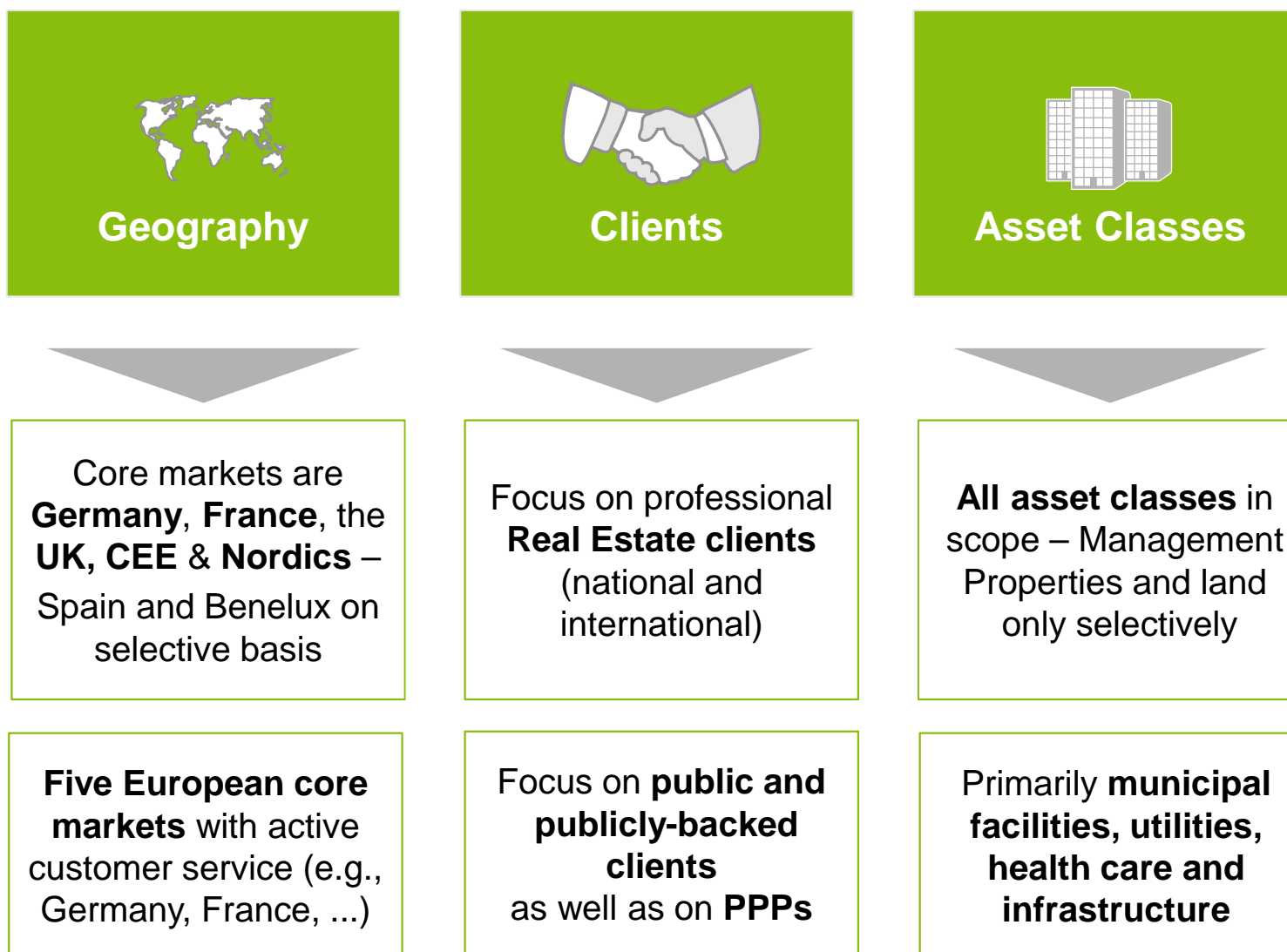
Note: Figures may not add up due to rounding 1 100% Germany

## Business model integrates the two segments: Real Estate and Public Investment Finance



# Real Estate Finance (REF) and Public Investment Finance (PIF)

## Strategy along main dimensions





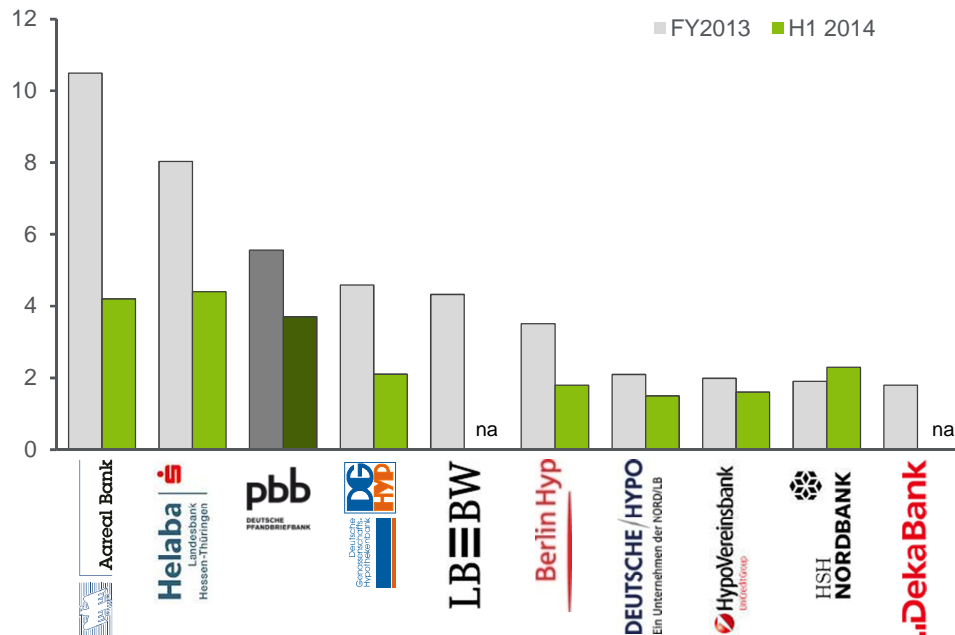
# REF

## Leading commercial real estate lender in Germany and well-positioned to benefit from ongoing CRE market recovery



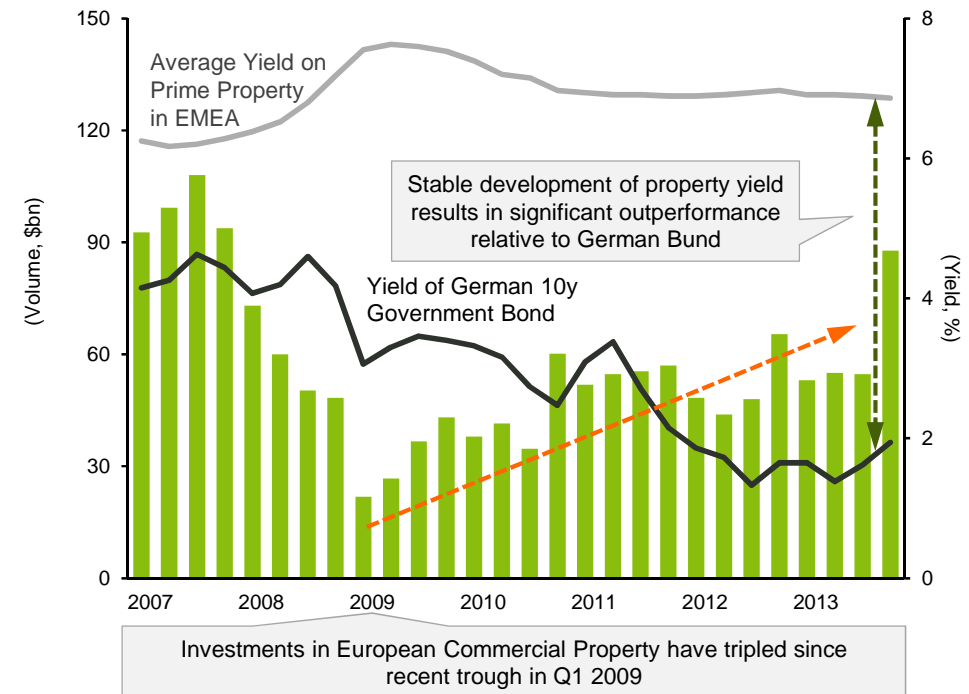
### Overview of Top 10 Commercial Real Estate Finance Banks in Germany

(by new commercial real estate finance business, in EUR bn)<sup>1</sup>



Source: VdP (FY2013) Company Information (H1 2014)  
Note: New business volumes under VdP reporting can vary from individual company reporting.

### Investments in Commercial Property in EMEA and Selected Yields



Source: Thomson Reuters, Cushman and Wakefield

- pbb is the third largest player in Germany by new commercial real estate business volume in 2013 and H1 2014
- EMEA CRE market recovering strongly, achieving c.22% growth in 2013
- Despite recently increasing competition, pbb has proven its ability to defend and increase market share

<sup>1</sup> Including prolongations

## Syndication

**pbb is an established player in the loan market**



**pbb with strong track record  
and broad internal expertise ...**

**pbb with dedicated department for REF and PIF  
("Loan Markets")**

- syndication desks for REF and PIF respectively and a separate agency desk

**pbb is a well established player in the market**

- Total volume in 09/2014 was an outplacement of € 1.8 bn<sup>1</sup> and intake of € 0.3 bn<sup>2</sup>

**... for syndication that is a key element of  
the business model**

**For REF lever to enable financing of large loans  
and creating extra profit**

- outplacement and intake allow for targeted management of volumes and risks

**For PIF revenue driver**

- outplacement of low margin loans offers revenue potential via arrangement and agency fees

**Combination of REF- and PIF-assets into tailored product offer in addition to 'Pfandbrief'**

1. Thereof € 1.3 bn 'Pre-Closing', € 0.2 bn 'Post-Closing' and € 0.3 bn 'Nachrang' 2. Thereof € 0.2 'Pre-Closing' and € 0.1 'Post-Closing'  
Note: Rounding errors

## pbb Banks' Day 2014

# Strict risk management and underwriting discipline continued

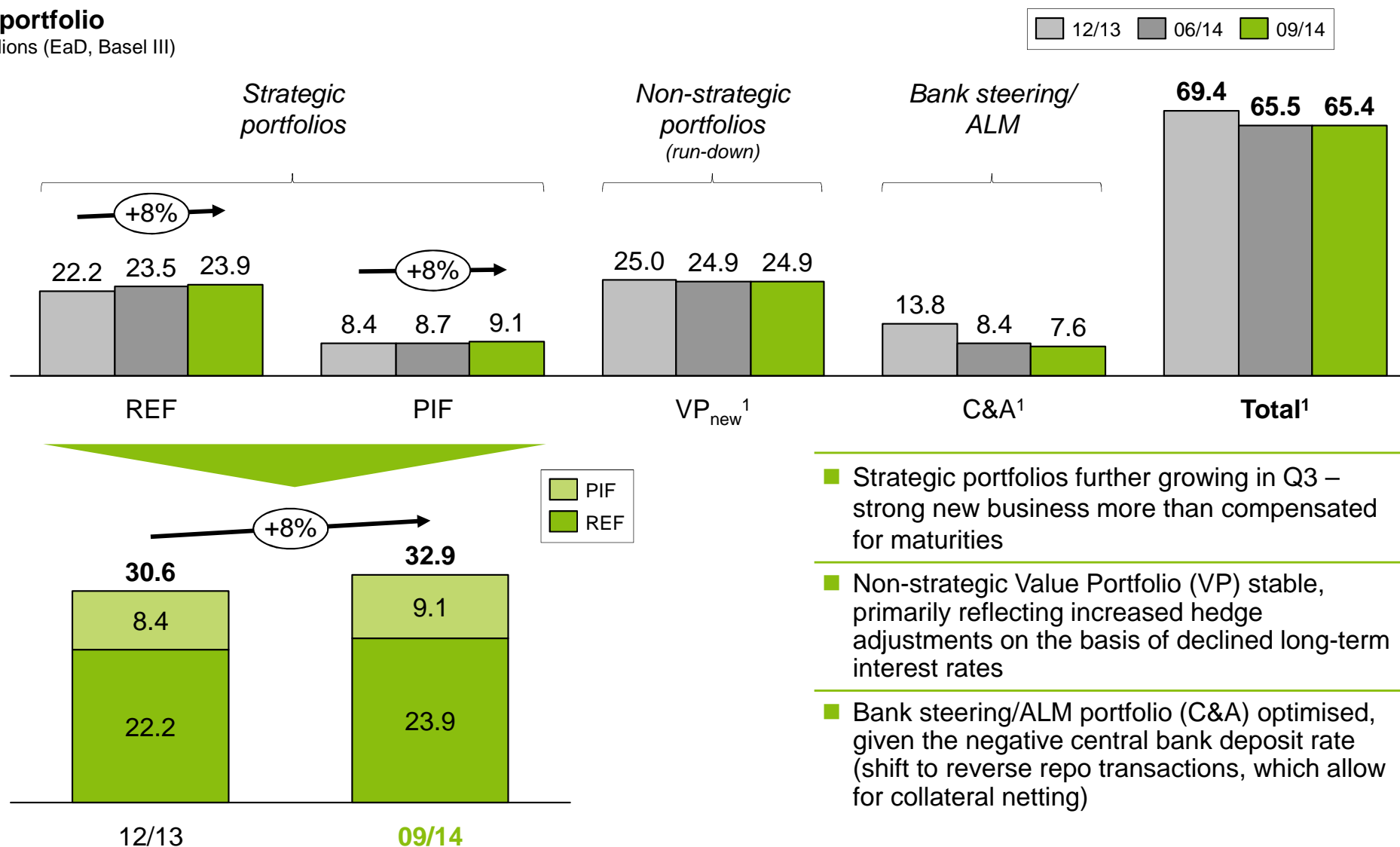
Andreas Schenk, CRO

# Portfolio

## Strategic portfolios growing

### Total portfolio

EUR billions (EaD, Basel III)



- Strategic portfolios further growing in Q3 – strong new business more than compensated for maturities
- Non-strategic Value Portfolio (VP) stable, primarily reflecting increased hedge adjustments on the basis of declined long-term interest rates
- Bank steering/ALM portfolio (C&A) optimised, given the negative central bank deposit rate (shift to reverse repo transactions, which allow for collateral netting)

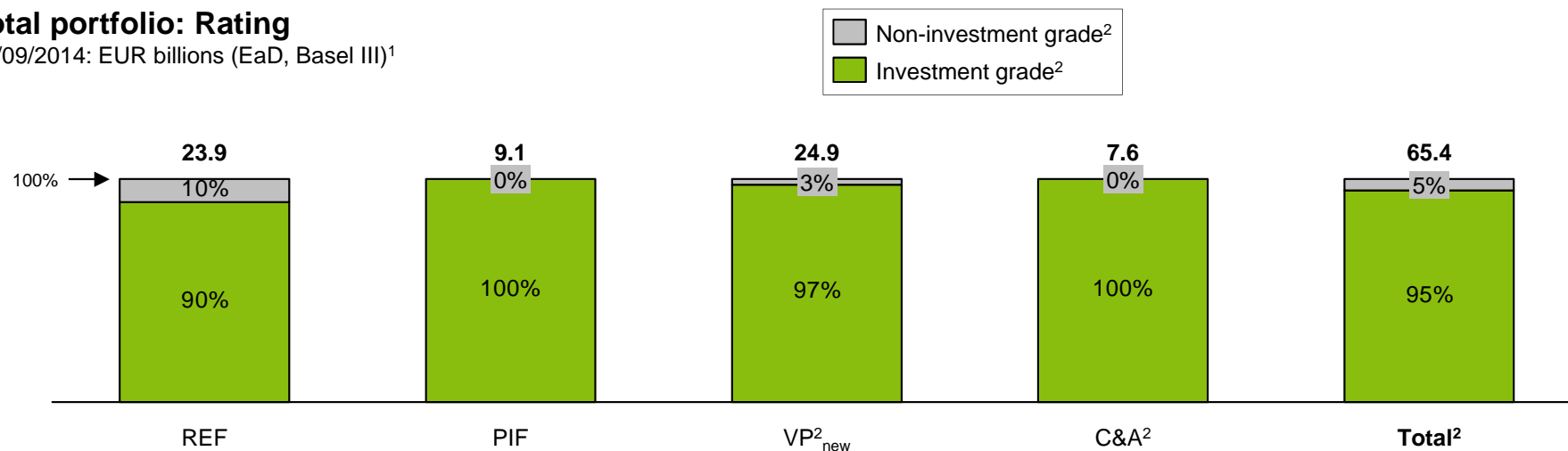
Note: Figures may not add up due to rounding 1 Excl. FMS-WM guaranteed exposure

## Portfolio

High portfolio quality reflected in sound risk profile and low share of problem loans

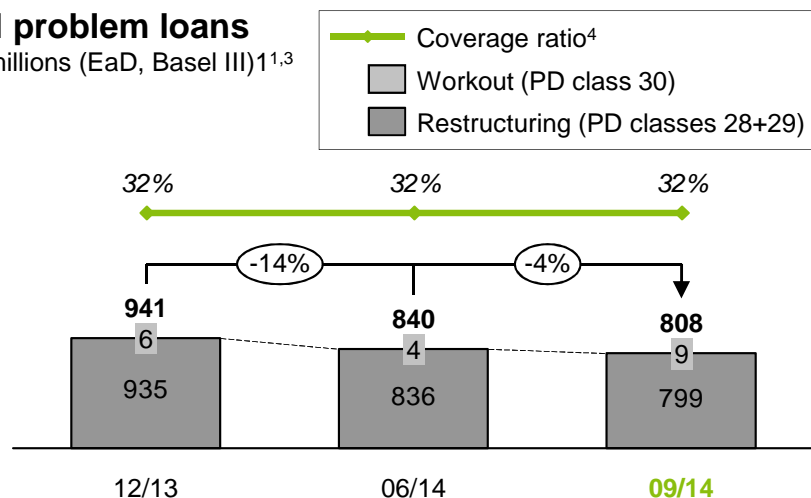
### Total portfolio: Rating

30/09/2014: EUR billions (EaD, Basel III)<sup>1</sup>



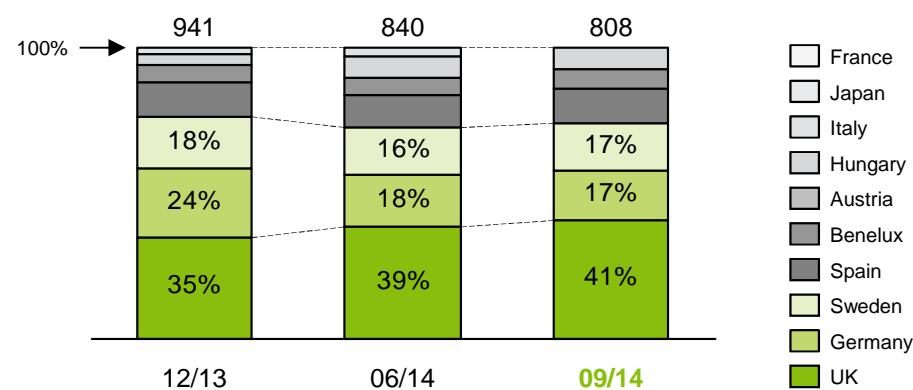
### Total problem loans

EUR millions (EaD, Basel III)<sup>1,3</sup>



### Total problem loans: Regions

EUR millions (EaD, Basel III)



Note: Figures may not add up due to rounding

1 Excl. FMS-WM guaranteed exposure

2 S&P scale; based on EL classes (investment grade = EL Classes 1-8; non-investment grade = EL classes 9-18)

3 In addition, EUR 1 mn in C&A (06/14: EUR 1 mn; 12/13: EUR 6 mn)

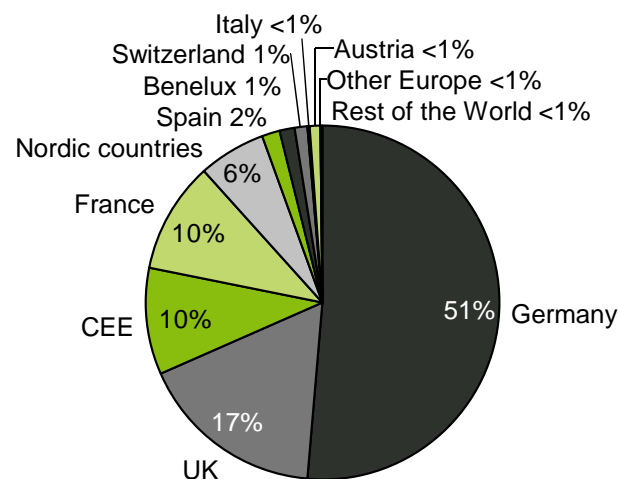
4 Individual LLPs (incl. interest) on non-performing exposure + portfolio-based LLPs on PD class 28 / total problem loans + structured products (recognised with nominal amount) - securitised loan parts; disregarding all other collateral

# Portfolio

## REF portfolio - diversified portfolio with conservative risk profile and LTVs

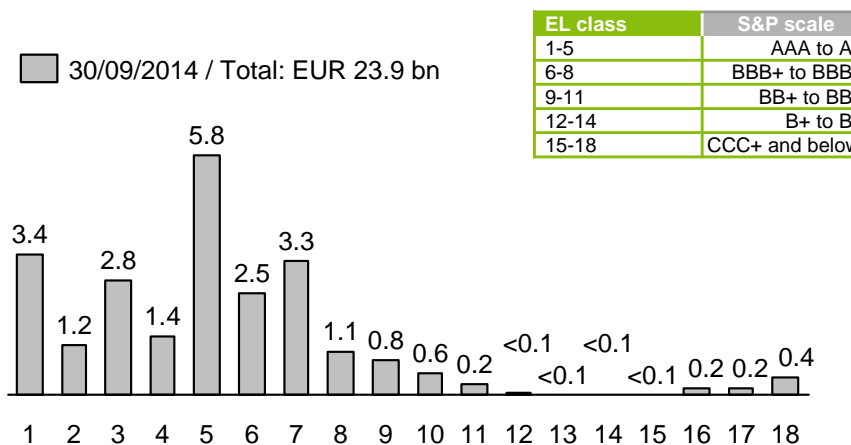
### REF portfolio: Country Distribution

30/09/2014 (EaD, Basel III)



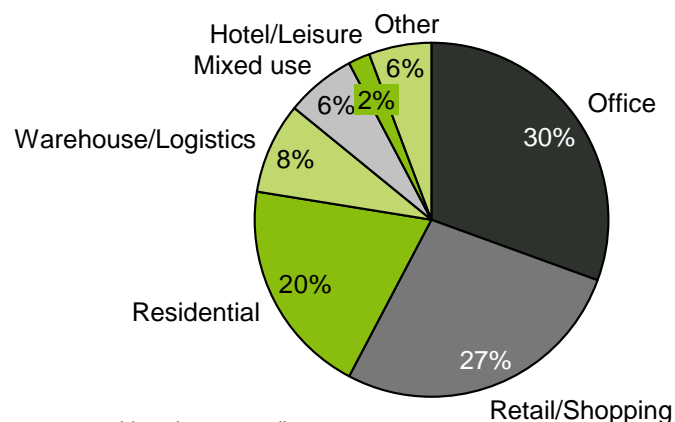
### REF portfolio: EL classes

30/09/2014: EUR billions (EaD, Basel III)



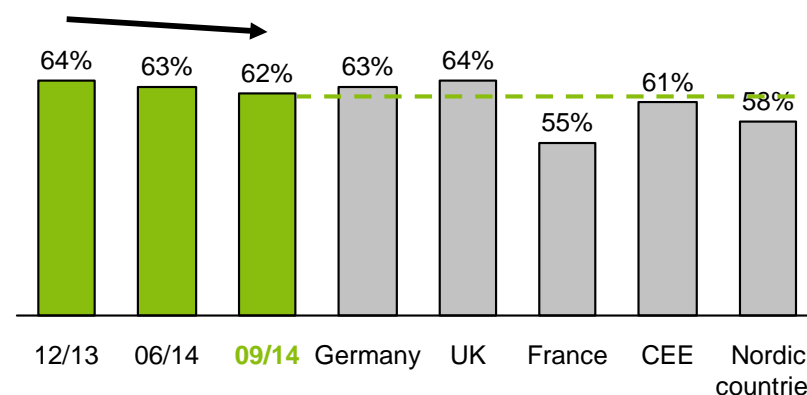
### REF portfolio: Product Types

30/09/2014 (EaD, Basel III)



### REF portfolio: Avg. weighted LTVs

(Commitments)



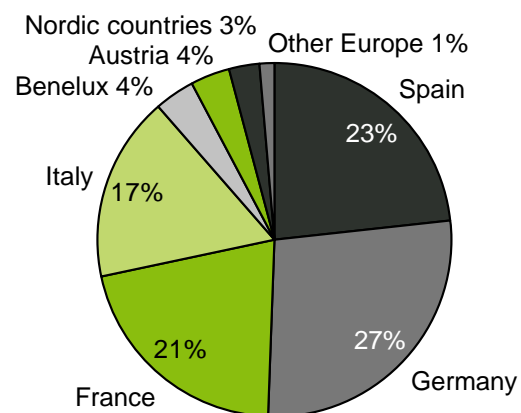
Note: Figures may not add up due to rounding

# Portfolio

## PIF portfolio - highly rated public investment finance portfolio

### PIF portfolio: Country Distribution

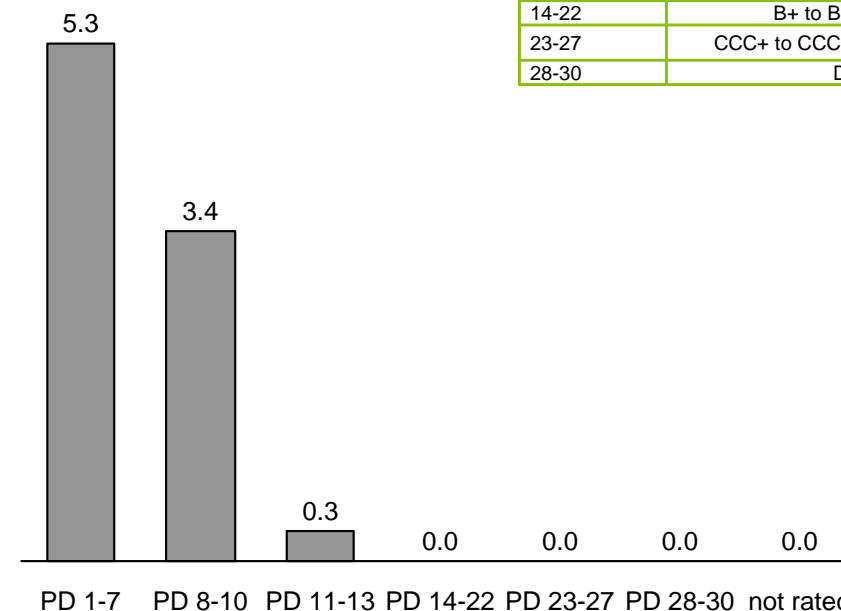
30/09/2014 (EaD, Basel III)



### PIF portfolio: PD classes

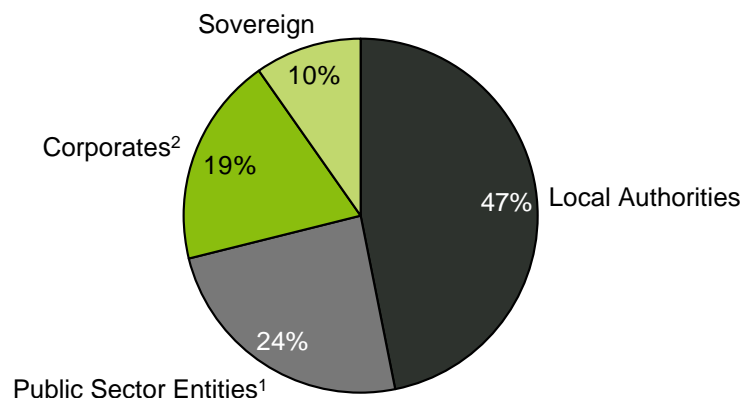
30/09/2014: EUR billions (EaD, Basel III)

PD class	S&P rating scale
1-7	AAA to A-
8-10	BBB+ to BBB-
11-13	BB+ to BB-
14-22	B+ to B-
23-27	CCC+ to CCC-
28-30	D



### PIF portfolio: Counterparty Types

30/09/2014 (EaD, Basel III)



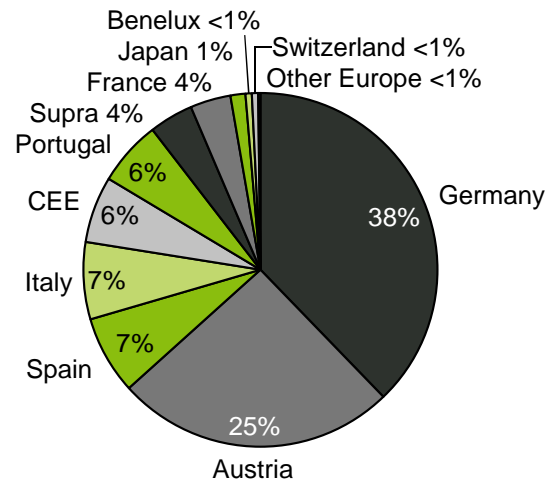
Note: Figures may not add up due to rounding 1 Entities with explicit or implicit financial support from a tax raising authority 2 >50% Sovereign/Regional Government related and/or guaranteed

## Portfolio

**Value Portfolio (VP) - bundles all non strategic assets within pbb**

### VP<sub>new</sub>: Country Distribution

30/09/2014 (EaD, Basel III)



### VP<sub>new</sub>: Ratings

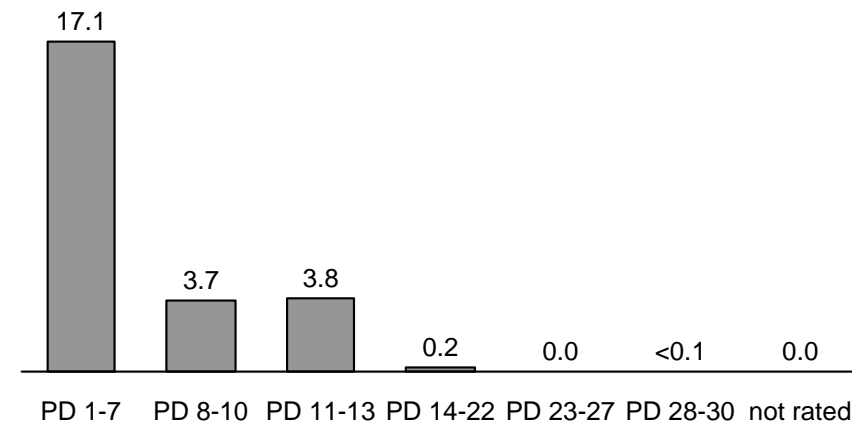
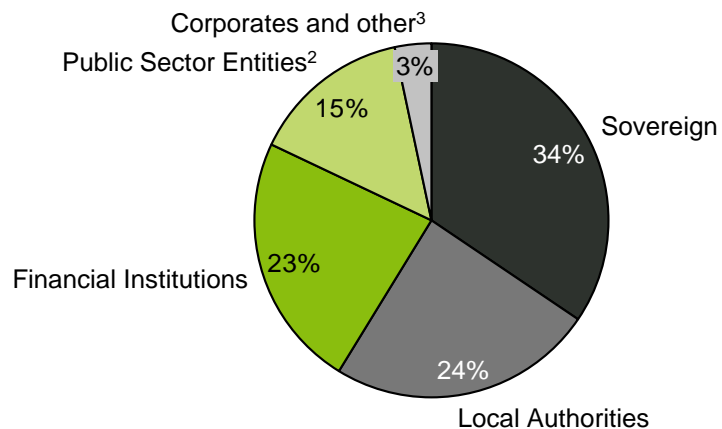
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PD class	S&P rating scale
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14-22	B+ to B-
23-27	CCC+ to CCC-
28-30	D

→ 85% investment grade

### VP<sub>new</sub>: Counterparty Types

30/09/2014 (EaD, Basel III)



Note: Figures may not add up due to rounding 1 Excl. FMS-WM guaranteed exposure



## New Business Process

REF: CRM New Business, PAV and Loan Markets strongly participate in New Business Process at an early stage

### CRM New Business


- **CRM New Business involved at an early stage** to focus on acceptable risk in accordance to Credit Risk Policy/Risk Strategy as well as EU requirements
- **Supporting Origination and Underwriting** from a credit risk point of view (consultancy function) during underwriting process to ensure transparency and conformity with initial introduced transaction parameter
- CRM votes in NDC and Credit Committee and can't be overruled
- **Providing senior market and financing experience**
- If risk profile changes, **escalation** to senior management

### Property Analysis & Valuation

- Property Analysis & Valuation forms part of the Deal Team to **identify and address property risk at very early stage** in order to allocate further resources efficiently
- Results of **technical Due Diligence** determining financing and covenant structure
- Evaluating **real estate markets and/or property** from a macro and micro point of view as basis for credit decision

### Loan Markets/Agency Desk

- Loan Markets REF/PIF for **evaluation of syndication activities** in underwriting process before credit approval
- Agency Desk to ensure an **independent agency function** if mandated
- Within credit decision process **providing current market know-how** regarding individual features, current market standards as well as pricing out of Market Network

- 
- **Ensuring conformity to Risk Strategy and EC-Requirements, high quality of risk analysis, and efficient capacity steering**
  - **Increasing transparency for involved parties and senior management of risks and mitigation within credit decision**



### **Stringent risk governance structure and strong credit risk monitoring processes tailored to support pbb's business model and designed to manage assets through the cycle**

- Consistent group-wide processes for identification, measurement, limitation and reporting of all significant risks
- Capital Adequacy concept supported by set of integrated stress tests providing a holistic and comprehensive approach
- Business model inherent concentration risks managed by set of tools from portfolio as well as single loan perspective
- Secondary Risk Management process implemented
- Property Analysis & Valuation highly integrated in credit monitoring process at an early stage
- Very strict Critical Facilities process with detailed trigger-set for required actions to secure forward looking management of credit risks
- Alignment of business and risk strategies
- Several external audits confirmed risk processes

- ➔ **AQR and stress test successfully evidencing strong asset quality and conservative valuation standards**
  - Valuation adjustments of EUR 37 mn for HRE Group's aggregate exposure (Total assets: EUR 122 bn) confirm conservative valuation policy
  - adequate capitalisation, even under stressed assumptions (adjusted CET1 10.78% in adverse scenario)
- ➔ **With ca. EUR 33 bn of new business closed since 2010, sound portfolio quality since asset transfer maintained due to prudent new business approach and strong risk management**
  - Ca. 90% of REF exposure in EL classes 1-8 at overall conservative LTV's
  - More than 90% of non-REF portfolio in PD Classes 1-10
  - Strategic portfolios growing (8% YTD) – new business more than compensates for maturities
  - Problem loan exposure further reduced (-14% YTD) and adequately covered (32%); available collateral and proven restructuring skills
- ➔ **Exposure to countries “in focus”**
  - Legacy exposure closely monitored, further reduced or restructured
  - New exposure only on selective basis, cash-flow for loan servicing and repayment is key
  - Exposures have performed well, even throughout the crisis
  - In most countries in focus, financial and economic situation is improving (Spain/Italy): spread development positive for pbb
- ➔ **Run-down of non-strategic Value Portfolio managed by dedicated team**

Strict risk management and underwriting discipline continued, therefore persistently high portfolio quality and low risk costs.

## pbb Banks' Day 2014

# Continuous improvement of capital market activities

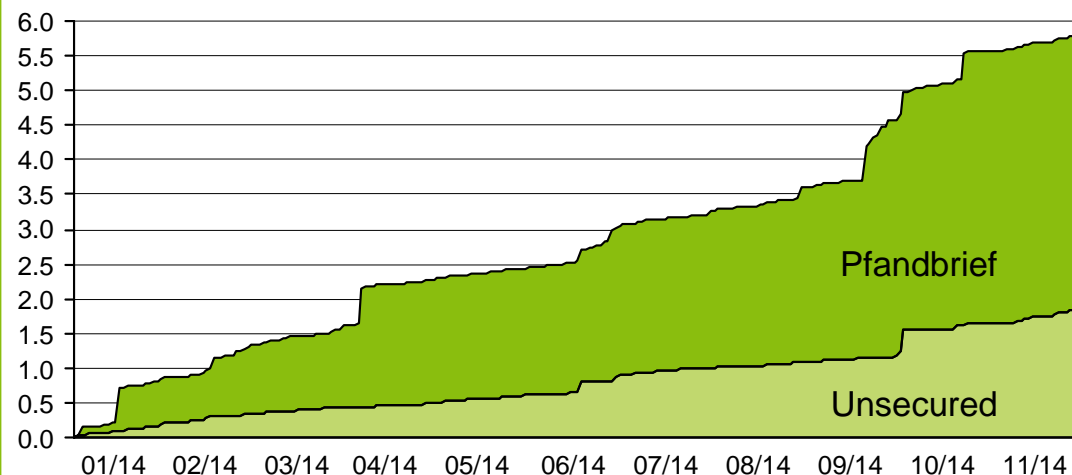
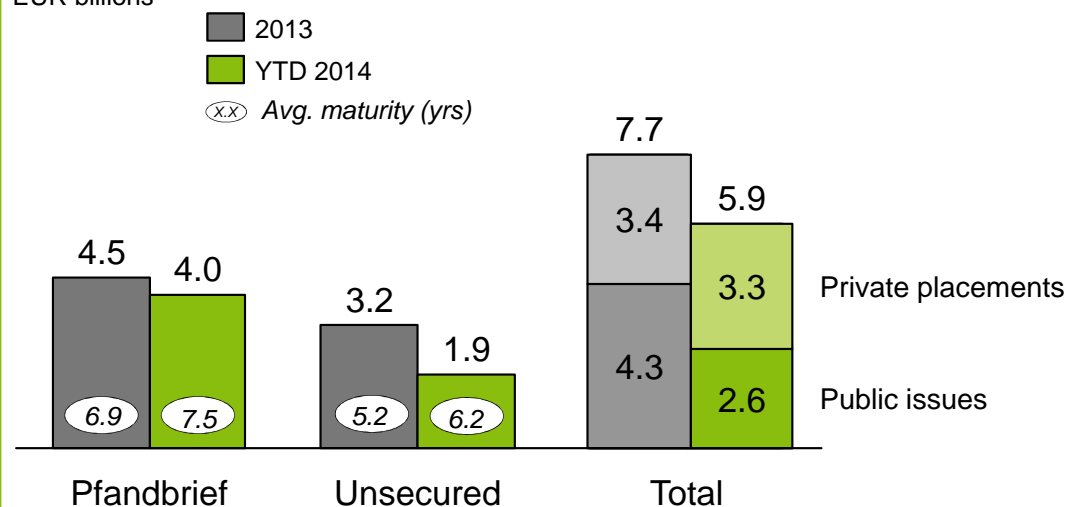
Wolfgang Groth, Group Treasurer

## Long Term Funding

New long-term funding of EUR 5.9 bn reflects lower funding needs due to further optimisation of funding profile on the basis of a more than adequate liquidity position

### New long-term funding (as of 11/11/2014)

EUR billions<sup>1</sup>



Note: Figures may not add up due to rounding <sup>1</sup> Excl. money market and deposit business

#### Mortgage Pfandbrief

- **Three EUR-benchmarks** with 3-, 5- and 8-y maturities and **four taps**
- **One GBP-benchmark**
- Tight Pfandbrief spreads and low yield environment led to higher demand for longer maturities
- Still **only issuer of SEK** with strong private placements (SEK 1.45 bn)

#### Public Sector Pfandbrief

- High asset maturities by the end of 2013 led to reduced funding need

#### Senior Unsecured

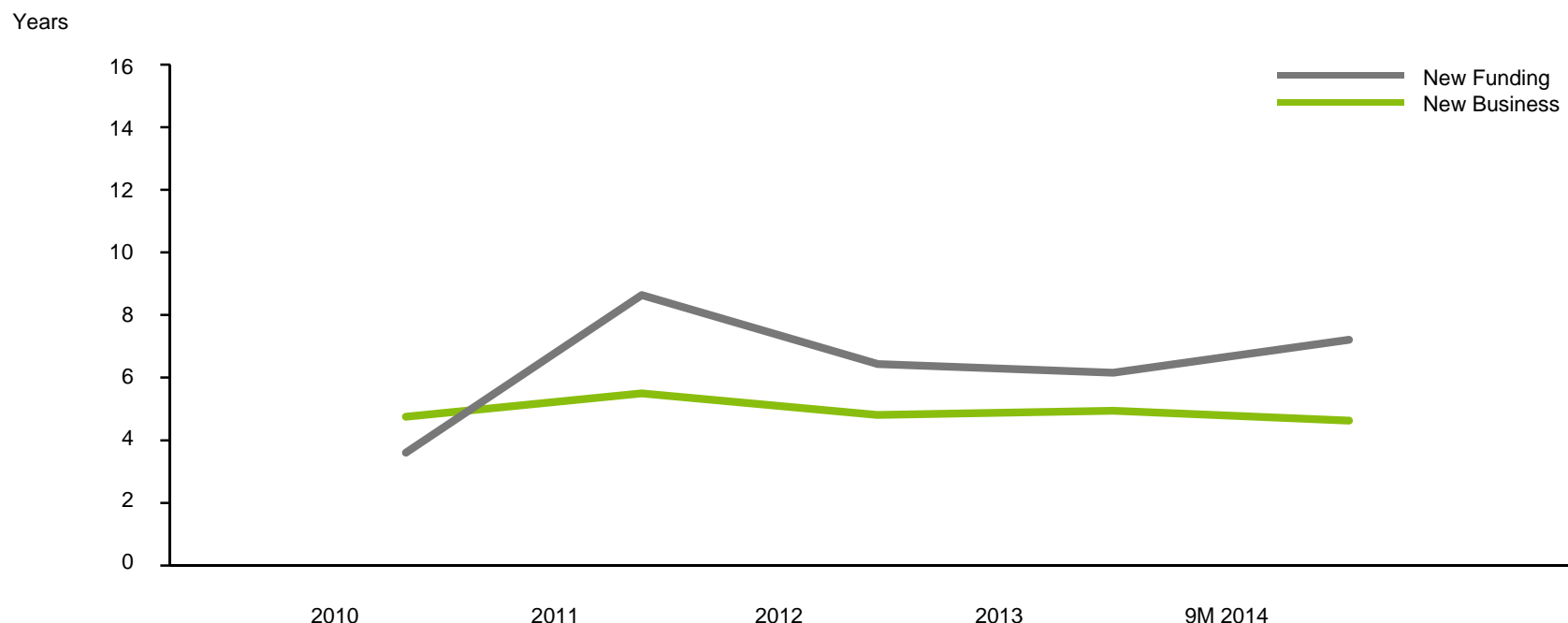
- No need for a public benchmark issuances in 2014 **however, two taps**
- **5 y club deal of EUR 300 mn** well received in the market
- Private placements at reduced spread levels
- Issuance of first **unsecured bonds in SEK** in Q1 (SEK 550 mn)

## Funding / Asset Liability Management

### Conservative funding approach in terms of maturities

### New business and funding tenors

Volume weighted average life



- **The weighted average maturity of long-term funding matches or exceeds the weighted average maturity of new business**
- **The maturities of Senior Unsecured Issuances match the weighted average maturities of new business in 2012, 2013 and H1 2014**

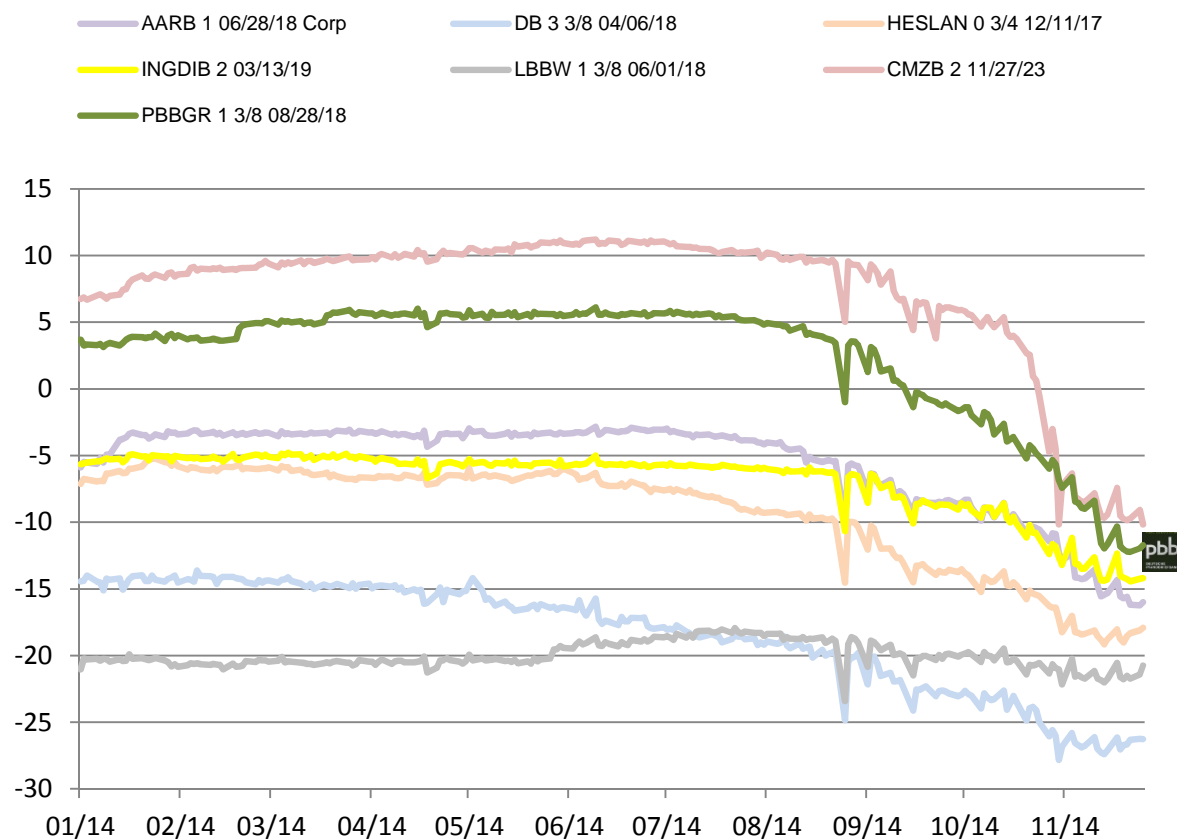
# Long Term Funding

## Pfandbrief benchmarks with good performance

### Benchmark Issuances in 2014

Type	Launch Date	Maturity Date	Size	Spread
<b>Mortgage Pfandbrief</b>	<b>14.01.2014</b>	<b>21.01.2022</b>	<b>EUR 500 mn</b>	<b>+17bp</b>
<i>Mortgage Pfandbrief (2<sup>nd</sup> Tap)</i>	<i>13.02.2014</i>	<i>03.06.2019</i>	<i>EUR 50 mn</i>	<i>+10bp</i>
<b>Mortgage Pfandbrief</b>	<b>18.03.2014</b>	<b>25.03.2019</b>	<b>EUR 500 mn</b>	<b>+14bp</b>
<i>Senior Unsecured (1<sup>st</sup> Tap)</i>	<i>03.06.2014</i>	<i>11.09.2017</i>	<i>EUR 150 mn</i>	<i>+72bp</i>
<i>Mortgage Pfandbrief (2<sup>nd</sup> Tap)</i>	<i>23.06.2014</i>	<i>30.01.2017</i>	<i>EUR 150 mn</i>	<i>-5bp</i>
<i>Mortgage Pfandbrief (1<sup>st</sup> Tap)</i>	<i>18.08.2014</i>	<i>25.03.2019</i>	<i>EUR 175 mn</i>	<i>+4.5 bp</i>
<b>Mortgage Pfandbrief</b>	<b>02.09.2014</b>	<b>08.09.2017</b>	<b>EUR 500 mn</b>	<b>+0 bp</b>
<i>Mortgage Pfandbrief (2<sup>nd</sup> Tap)</i>	<i>05.09.2014</i>	<i>25.03.2019</i>	<i>EUR 75 mn</i>	<i>+3.3 bp</i>
<b>Mortgage Pfandbrief</b>	<b>23.09.2014</b>	<b>29.09.2017</b>	<b>GBP 300 mn</b>	<b>+42 bp<sup>2</sup></b>

### Mortgage Pfandbrief Spread Performance YTD 2014



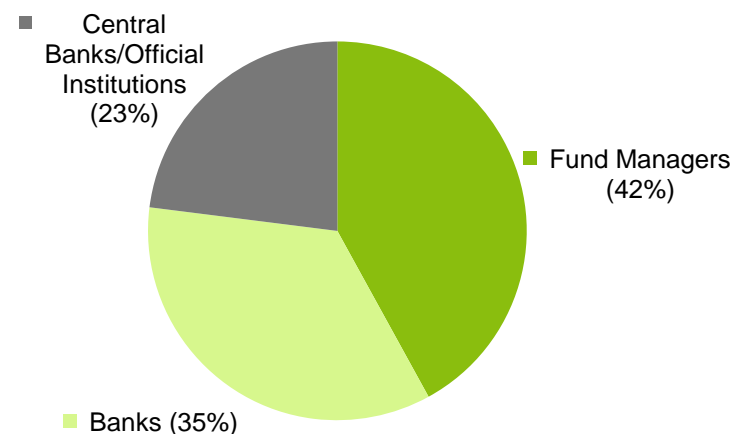
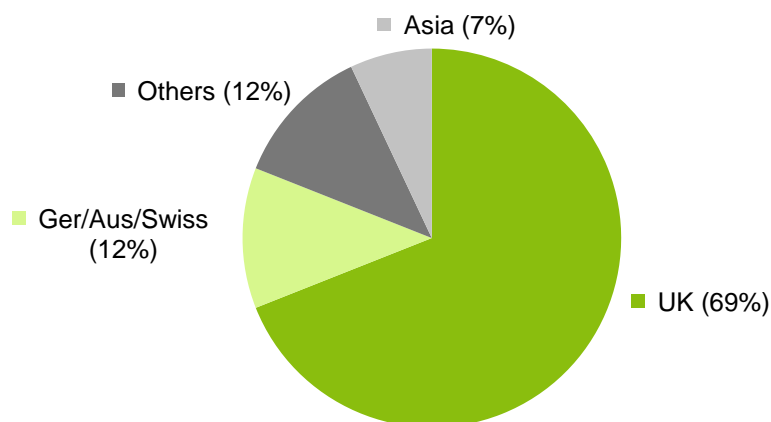
- pbb outperformed its peers with spread differentials compressing over the course of the year

## Long Term Funding

### Foreign currency issuances in SEK and GBP

- Starting with Pfandbrief the Swedish investors base was opened for pbb in the last 2 years
- Currently pbb is the only issuer of Pfandbrief in SEK. This year again we had strong private placements (SEK 1,450 mn)
- Also unsecured funding directly in SEK could be raised (SEK 550 mn)
- With a total outstanding of almost SEK 4 bn we have been able to reduce the derivatives accordingly and fund the Swedish assets directly with SEK
- With almost GBP 1 bn outstanding pbb is still the largest Pfandbrief issuer in this market
- Another Mortgage Pfandbrief benchmark was issued in Q3 which was well received in the Sterling covered bond market

#### 3y Mortgage Pfandbrief 300 mn GBP



Source: HSBC

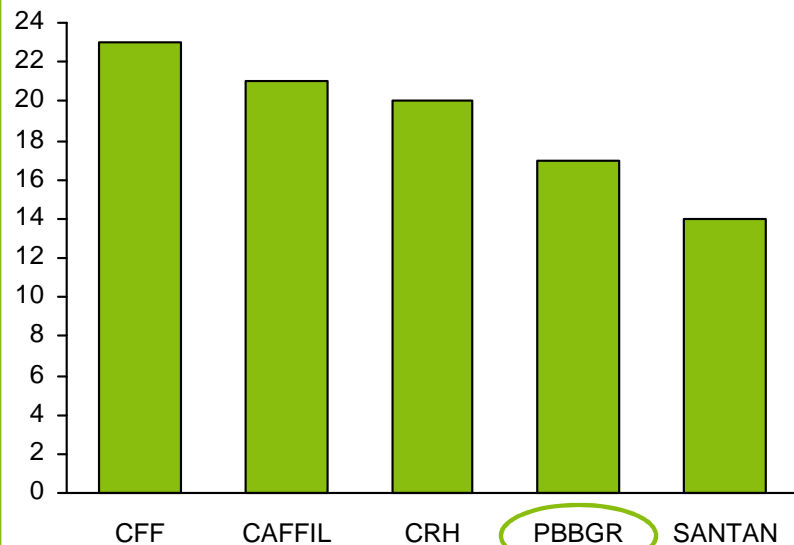


## Long Term Funding

pbb is a leading covered bond issuer in Europe



### Top 5 European Issuers by Number of Outstanding Benchmarks



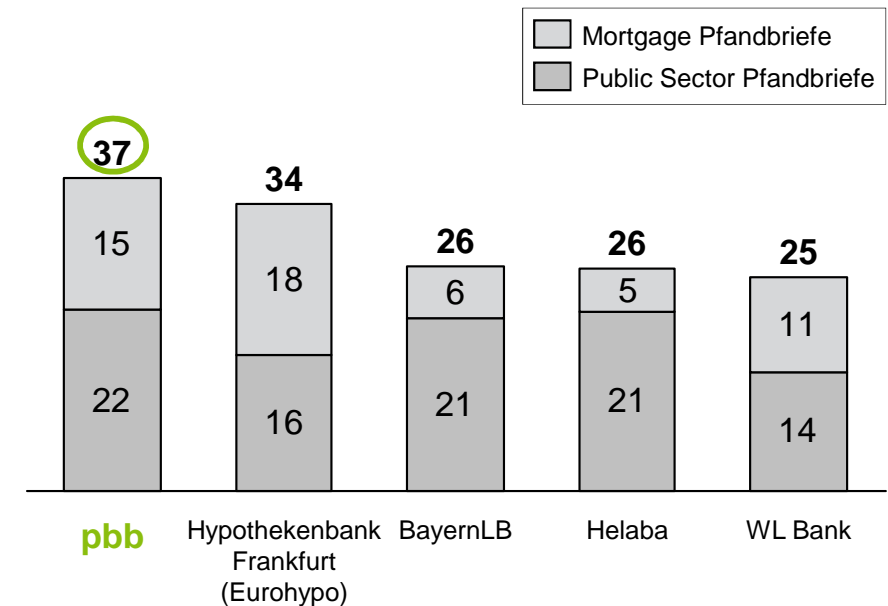
Source: Crédit Agricole

### pbb - the Largest Pfandbrief Issuer

- pbb with significant market share of 11 % in newly issued Pfandbrief in the first three quarters of 2014 (total issuance: EUR 35 bn)
- With EUR 37 bn nominal outstanding is pbb the largest Pfandbrief issuer as of 30/09/2014

### Top 5 Pfandbrief Issuers

30/09/14: EUR billions (Nominal outstanding)<sup>1</sup>



Note: Figures may not add up due to rounding <sup>1</sup> Source: Publications according to §28 Pfandbrief Act

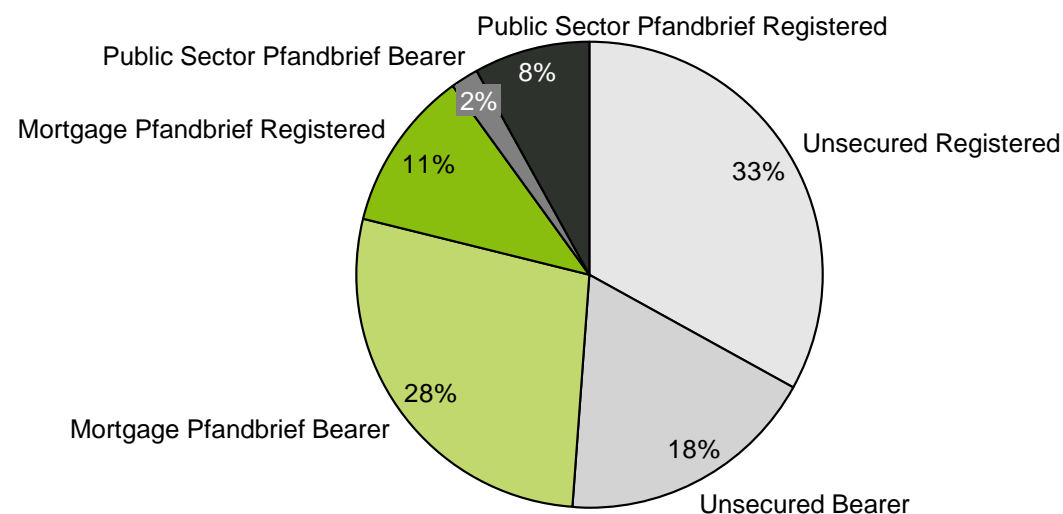
## Long Term Funding

### Strong activity in the private placement market

- The private placement market is an important pillar for pbb's refinancing and reflects currently 56% of the funding
- Even split between registered and bearer bonds
- Unsecured registered market with its special characteristics plays major role
  - Well diversified, broad investor base
  - Small ticket size
  - Mainly domestic driven
  - Longer tenor in 2014 due to low yield environment
- High flexibility regarding tailor-made structures (starting with a volume of EUR 3 mn)
  - FRN, leveraged, collared
  - Zero (only unsecured), step-up coupon
  - Callables (currently no putable structures)
  - CMS-linked, CMS Spread

### Private Placements YTD 2014

	Format	Volume in mn	Trades	avg. size in mn	avg. tenor in years
Pfandbrief <sup>1</sup>	Bearer	998	34	29.4	5.8
	Registered	624	42	14.9	20.9
Unsecured	Bearer	588	12	49.0	4.2
	Registered	1,091	168	6.5	8.0
<b>Total</b>		<b>3,301</b>	<b>256</b>	<b>12.9</b>	<b>5.8</b>



<sup>1</sup> Mortgage and Public Sector Pfandbrief

## Liquidity Management

### Roles and responsibilities

- Management of pbb liquidity in EUR and foreign currencies
- Management and steering of the fixings and short-term IR < 1y
- Management, steering and optimization of the Public Sector and Mortgage cover pools in relation to external requirements and profitability
- Management and steering of the regulatory Liquidity Buffer (MaRisk/EBA) of high liquid assets portfolio
- Monitoring of the Liquidity Risk

Expected trading volume p.a. (in EUR):

FX Swap

Expected volume: **EUR 30 - 40 bn**

Repo (Bilateral & Tri-Party)

Expected volume: **EUR 15 - 18 bn**

Interbank Loans &  
Deposits

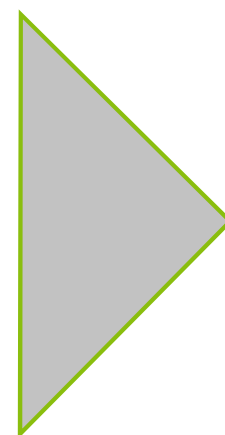
Expected volume: **EUR 30 - 40 bn**

ECP Program

Expected volume: **EUR 2 - 3 bn**

Derivatives  
(FRA, IRS, EONIA...)

Expected volume: **EUR 5 - 10 bn**

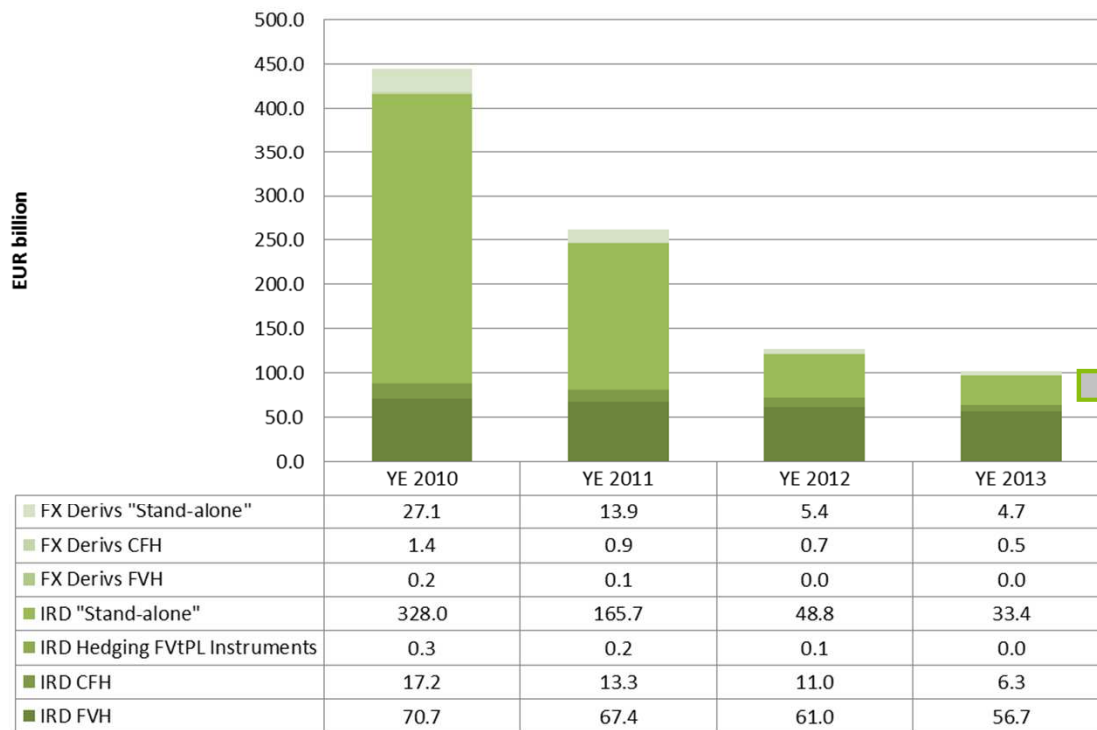


Expected volume p.a.:  
**EUR 100 bn**

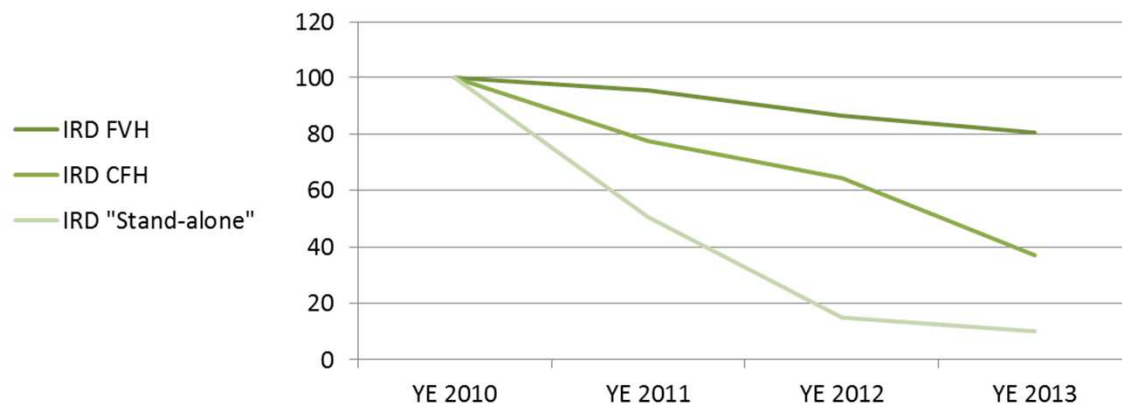
# Asset Liability Management

## Derivatives optimisation

### Derivatives - Nominal Amounts



(Index 100 = YE 2010)



#### ■ Successful balance sheet reduction achieved

- From EUR 450 bn in 2010 to < EUR 100 bn notional
- < EUR 57 bn IRD hedging ~EUR 150 bn assets and liabilities (IFRS Q3 14 Balance Sheet EUR 76.1 bn)
- ~ EUR 33 bn IRD client derivatives and back-to-back hedges recognised as IFRS "Standalone"

#### ■ New business opportunities and hedging needs

- Bulk of efficiency gains already realized
- New business growth will imply new derivatives

#### ■ FX derivatives

- Overall non-EUR financing volume <10% (~EUR 5 bn vs > EUR 60 bn total)
- Mostly FX swaps to fund GBP, USD, SEK; and some cross currency swaps

#### ■ Interest rate derivatives

- Standalone volumes down 90% since 2010
  - FMS-WM transfer (b2b then novations)
  - Natural hedging, i.e. internalisation
  - Remainder nearly all client derivs & b2b
- Discontinued Macro Cash Flow Hedge down 63%, partly re-designated as Micro FV Hedge

#### Responsibilities

- Interest rate steering: pbb banking book, capital investment book, model books, derivatives portfolio
- Client derivatives business: pricing and execution of derivatives for our REF and PIF clients
- Strategic balance sheet mgmt: structural funding gaps, funding planning, funds transfer pricing, Treasury Operating Model

#### Needs

- Competitive and prompt pricing for new transactions and terminations
- Transparent quotes: ideally mid-market rate and margin
- Continuous access to derivatives in our main currencies: EUR, USD, GBP, SEK
- Where possible, trade confirmation via MarketWire, central clearing via Eurex (or LCH)
- Access to your research platforms and positioning ideas

#### Expected trading volume p.a.

- Ongoing derivatives optimisation (natural hedge, hedge accounting), yet still significant transaction volumes up to EUR 10 bn
- In addition to own banking book management, hedging needs for pbb client derivatives business (IRS, Caps/Floors, Swaption)

#### Long Term Funding

- Optimization of liability profile – shorter maturities, delayed secured funding
- Several EUR Pfandbrief Benchmarks
- Club deals with floating rate Pfandbrief
- Mortgage Pfandbrief also in SEK and GBP
- Public Sector Pfandbrief also in USD
- Unsecured EUR benchmark
- Opportunistic issuance of unsecured in non EUR
- Importance of Private Placements
- Retail platform well accepted by the market with deposits above EUR 1.5 bn to be increased
- Diversification of funding sources and broadening of investor base with a focus on unsecured

#### Money Markets

- Develop Repo activities via GC Pooling
- Reactivation of the Commercial Paper Program

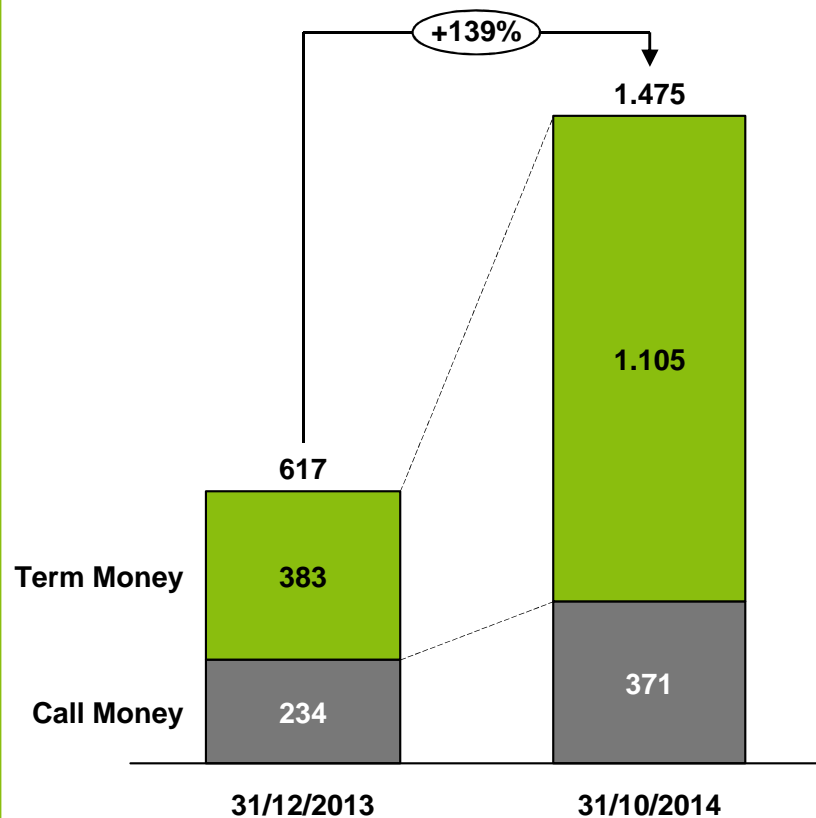
#### Asset Liability Management

- Central clearing of new trades and potential back-loading (implementation completed in 2014)
- Optimization of hedge accounting and derivatives portfolio
- Continuous development of derivatives pricing structure
- Implementation of improved internal funds transfer pricing concept

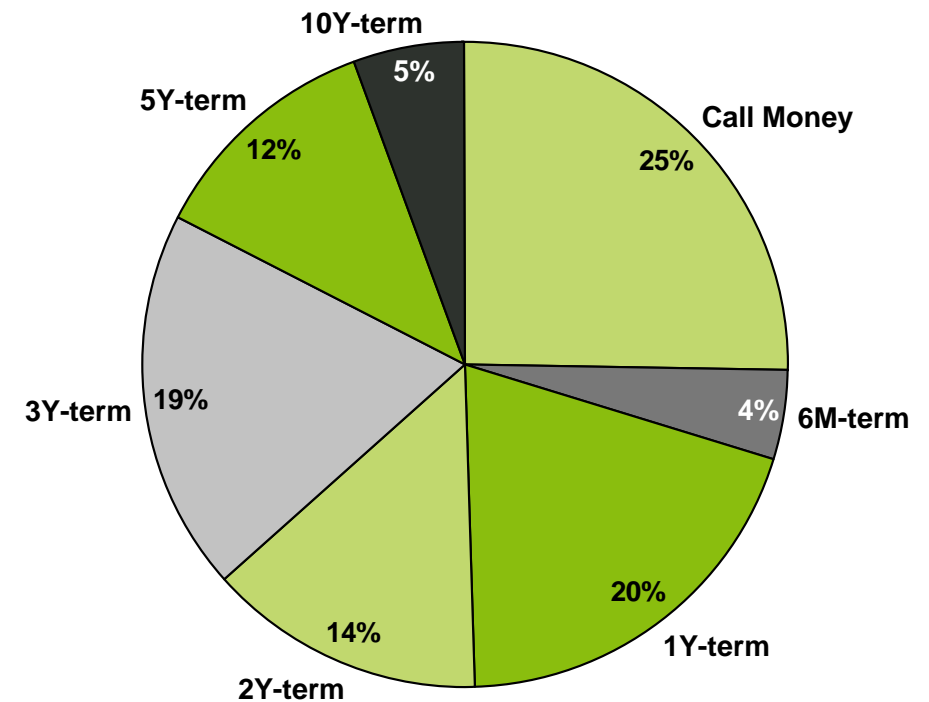
## Retail Deposits

Retail deposits well established as alternative source of unsecured funding

**Retail Deposits Volume**  
in EUR billions



**Breakdown of Retail Deposits by Maturity**



- Total volume EUR 1.475 bn, thereof term money approx. EUR 1.1 bn (75%)

- Average maturity of term money: 2.96 years

Note: Data as of 31/10/2014

## pbb Banks' Day

Building a strong stand-alone bank, independent of  
privatisation process and outcome

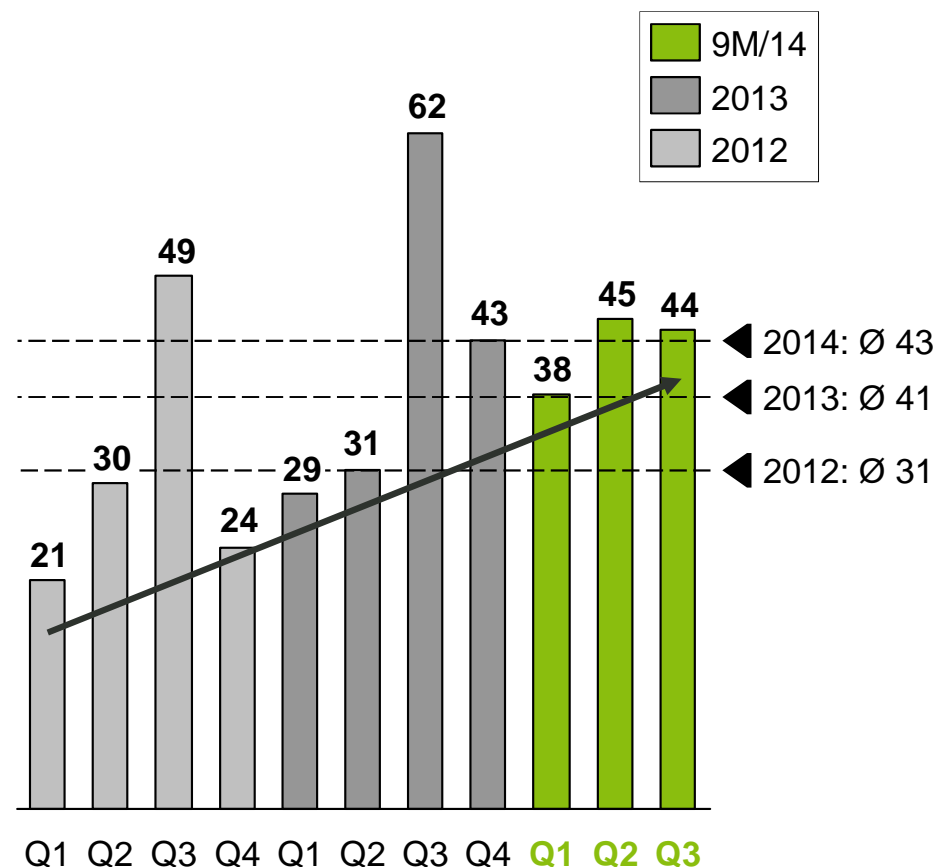
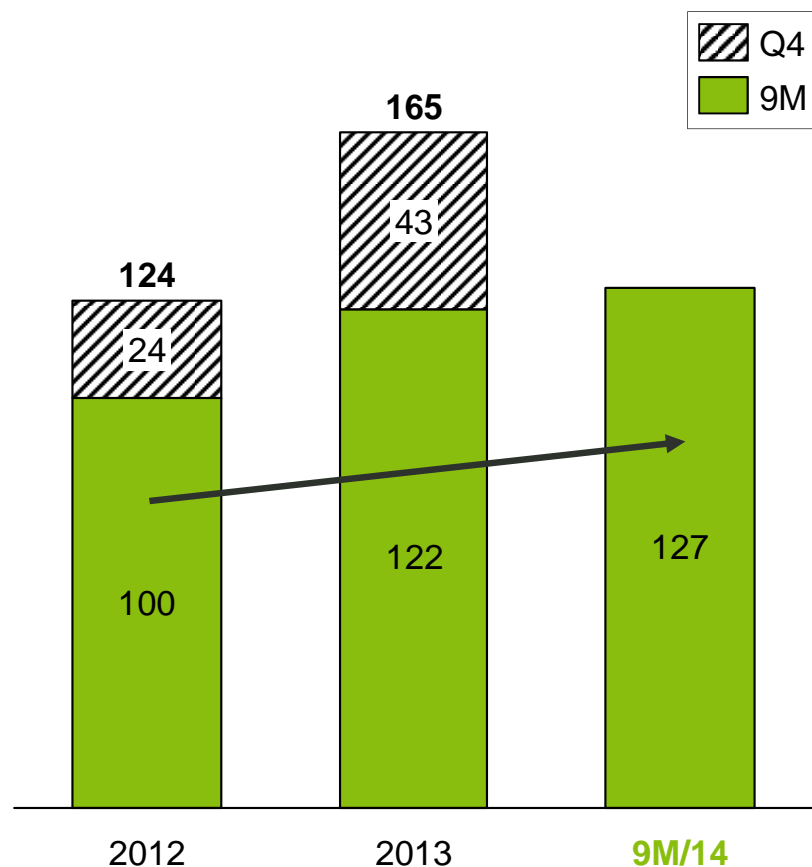
Andreas Arndt, Co-CEO/CFO



**Continuously strengthened operative income base – pre-tax profit of EUR 127 mn for the first nine months 2014 well in line with full-year target of EUR >140 mn**

**Pre-tax profit**

EUR millions

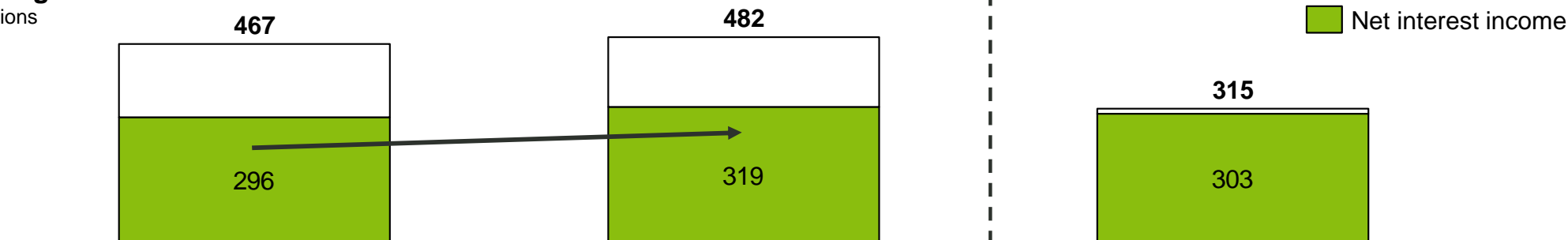


## Operative performance indicators show a positive trend

### Operating income

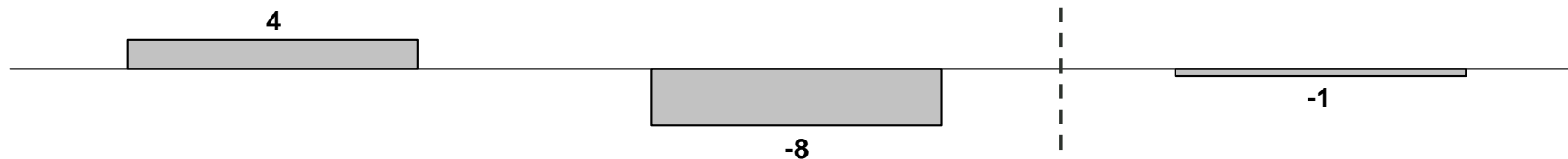
EUR millions

Net interest income



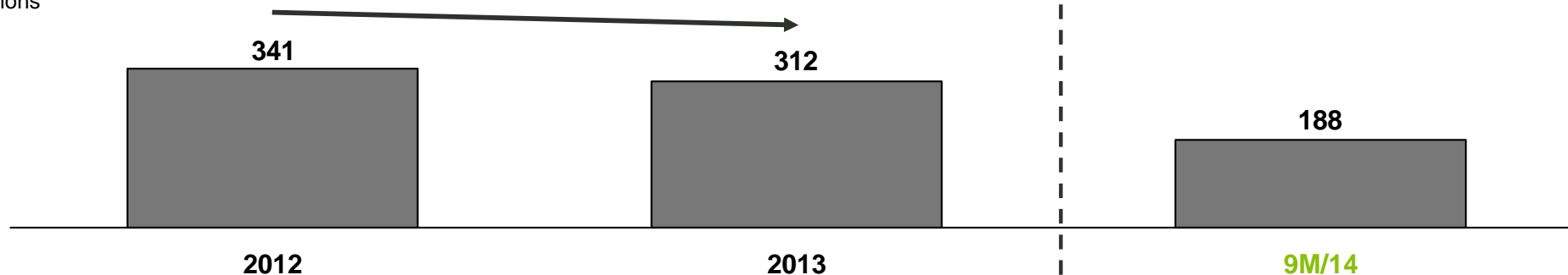
### Loan-loss provisions

EUR millions



### General and administrative expenses

EUR millions



### Income statement

- pbb well on track with **pre-tax profit** up +4% to EUR 127 mn (9M/13: EUR 122 mn, incl. higher positive one-off effects) and thus well in line with full-year target of EUR >140 mn
- Continued positive trend in base line revenues from lending business – adjusted for prepayment fees and other one-offs, **net interest income** strongly up (Q3: +22% y-o-y; 9M: +25% y-o-y)
- Unchanged low level of **loan-loss provisions** (Q3: EUR 1 mn release; 9M: EUR -1 mn) – loan-loss provisions required for only a few individual cases
- **Operating cost base** significantly reduced due to strict cost containment and following the termination of the FMS-WM servicing by end of Sep 2013 (Q3: -24% y-o-y; 9M: -22% y-o-y)

### Balance sheet & Capital

- Ongoing conservative balance sheet management with overall matched **maturity profile** and strong **liquidity position**
- **RWA** relatively stable (EUR 17.9 bn) despite strong new business and growth of strategic portfolios (12/13: EUR 18.1 bn; 06/14: EUR 17.7 bn)
- Stable sound capitalisation with **CET 1 ratio** of 18.6%<sup>1</sup> (simulation as of 12/13: 18.4%)

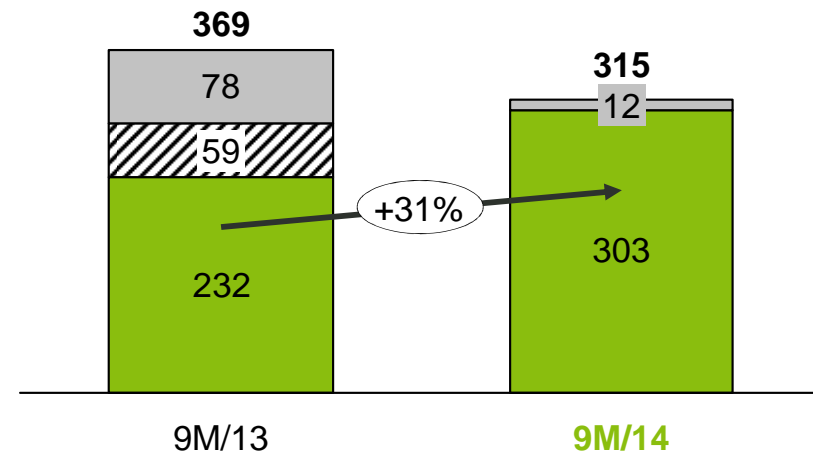
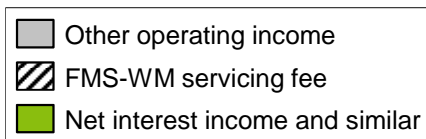
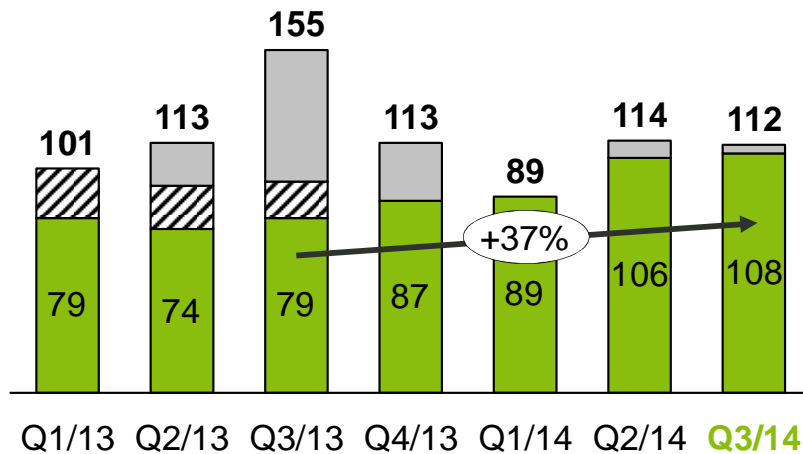
<sup>1</sup> Pro-forma according to the 'Waiver Rule' regulated in Article 7 CRR; Basel III transitional rules

## Income Statement

Development of operating income reflects continuously strengthened operative income base from lending business

### Operating income

EUR millions



### Key drivers:

- Operative income base from lending business continuously strengthened
- No fee income from FMS-WM servicing<sup>1</sup> since Oct 2013 (9M/13: EUR 59 mn)
- Lower positive one-off effects (net)

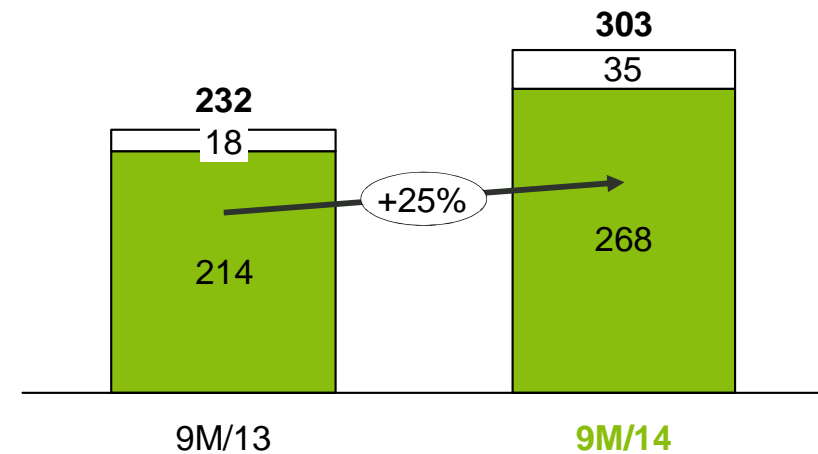
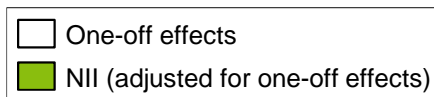
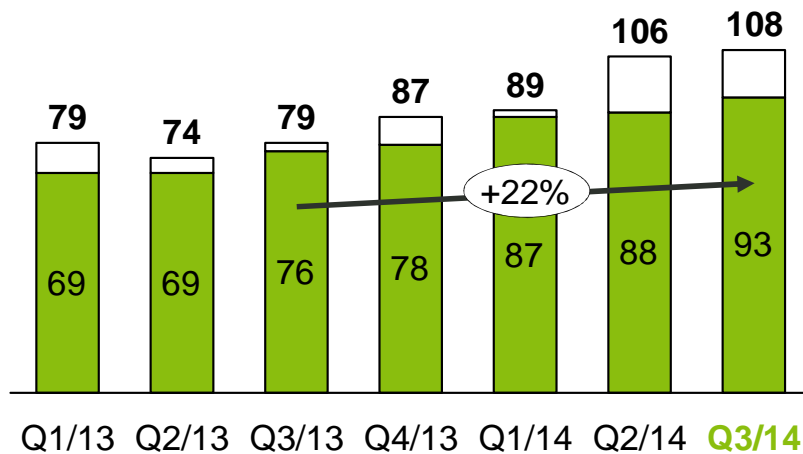
<sup>1</sup> Except for a few services that cannot be obtained otherwise and which have continued to be provided after Sep 2013

## Income Statement

Continued positive trend in net interest income, driven by higher-margin and growing strategic portfolios

### Net interest and similar income

EUR millions



### Key drivers:

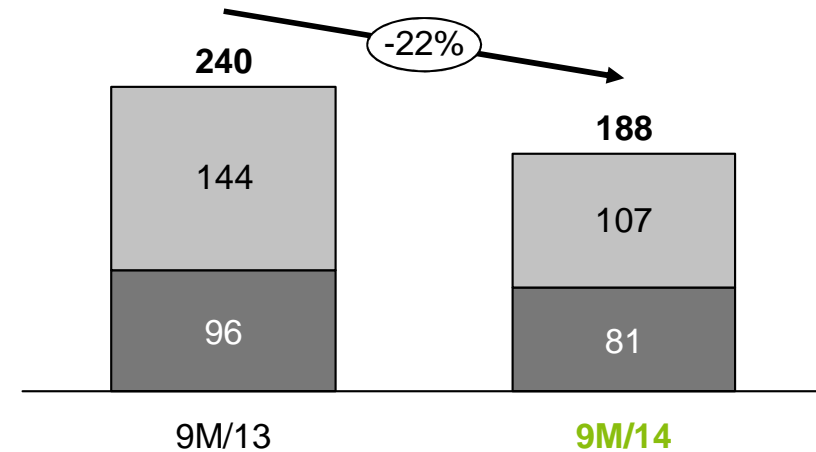
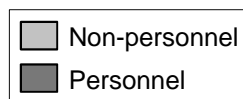
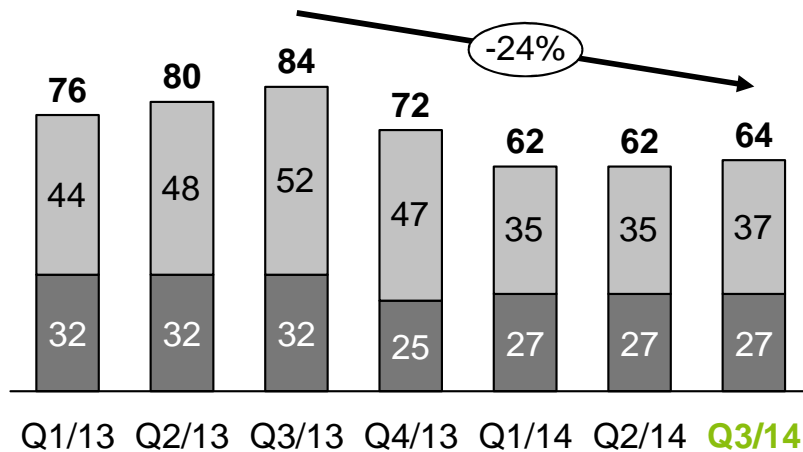
- NII driven by higher-margin and growing strategic portfolios
- One-off effects mainly consist of prepayment fees – Q3/14 includes an additional EUR +15 mn gain from termination of a derivative transaction

## Income Statement

Operating cost base significantly reduced due to strict cost containment and following the termination of the FMS-WM servicing by end of Sep 2013

### General and administrative expenses

EUR millions



### Key drivers:

- Termination of FMS-WM servicing<sup>1</sup> and transfer of related staff by end of Sep 2013
- Strict cost containment
  - Lower expenses for IT and professional services – EUR 2 mn higher IT-costs in Q3/14 (q-o-q) include costs for DEPFA separation
  - Personnel expenses down -17% y-o-y and remaining flat q-o-q

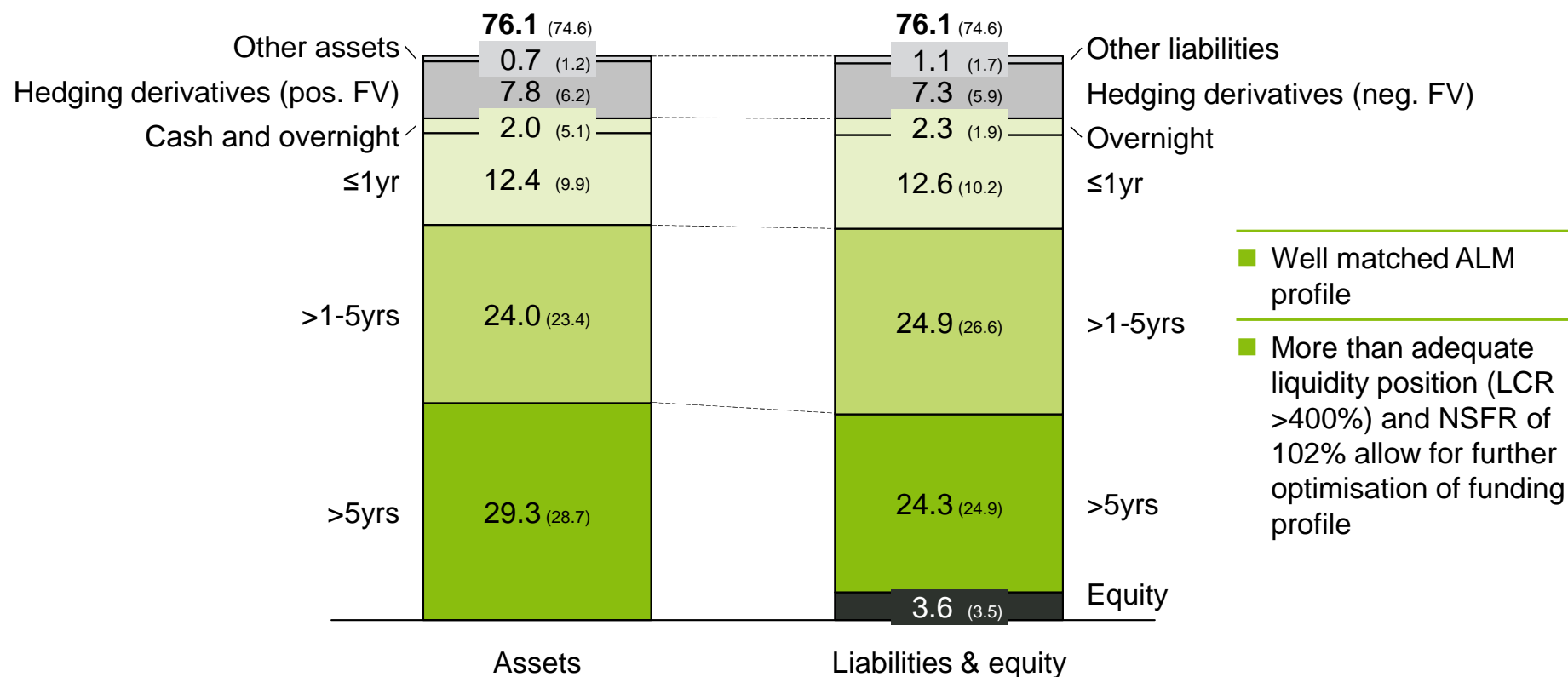
<sup>1</sup> Except for a few services that cannot be obtained otherwise and which have continued to be provided after Sep 2013

## Balance Sheet

pbb operates conservative balance sheet management with overall matched ALM profile and strong liquidity position

Balance sheet: 30/09/2014 (31/12/2013)

EUR billions



Note: Figures may not add up due to rounding

# Capital

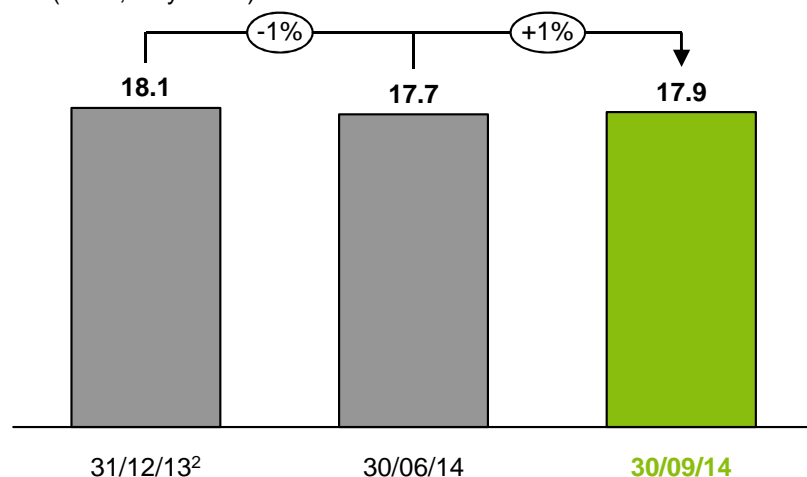
## pbb with solid capital ratios under Basel III

The regulatory capital ratios stated are calculated on an unaudited pro-forma basis. According to the 'Waiver Rule' regulated in Article 7 CRR, Deutsche Pfandbriefbank AG is exempt from calculating the equity capital ratio and the core capital ratio on a sub-group level.



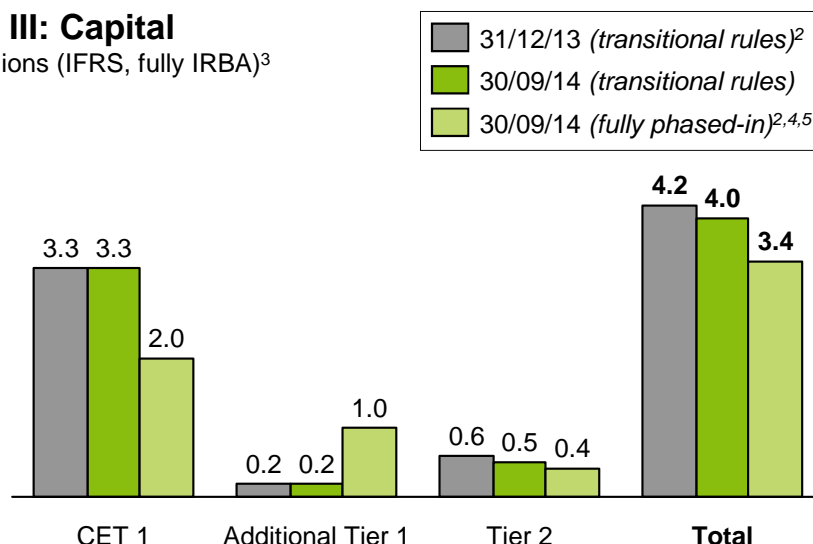
### Basel III: RWA

EUR billions (IFRS, fully IRBA)<sup>1</sup>



### Basel III: Capital

EUR billions (IFRS, fully IRBA)<sup>3</sup>



### Basel III: Capital ratios

% (IFRS, fully IRBA)<sup>3</sup>

	31/12/13 (transitional rules) <sup>2</sup>	30/09/14 (transitional rules)	30/09/14 (fully phased-in) <sup>2,4,5</sup>
<b>CET 1</b> <small>(min.)</small>	18.4 <small>(4.0)</small>	18.6 <small>(4.0)</small>	11.4 <small>(7.0)</small>
<b>Tier 1</b> <small>(min.)</small>	19.6 <small>(5.5)</small>	19.7 <small>(5.5)</small>	17.0 <small>(8.5)</small>
<b>Own funds</b> <small>(min)</small>	23.1 <small>(8.0)</small>	22.5 <small>(8.0)</small>	19.0 <small>(10.5)</small>

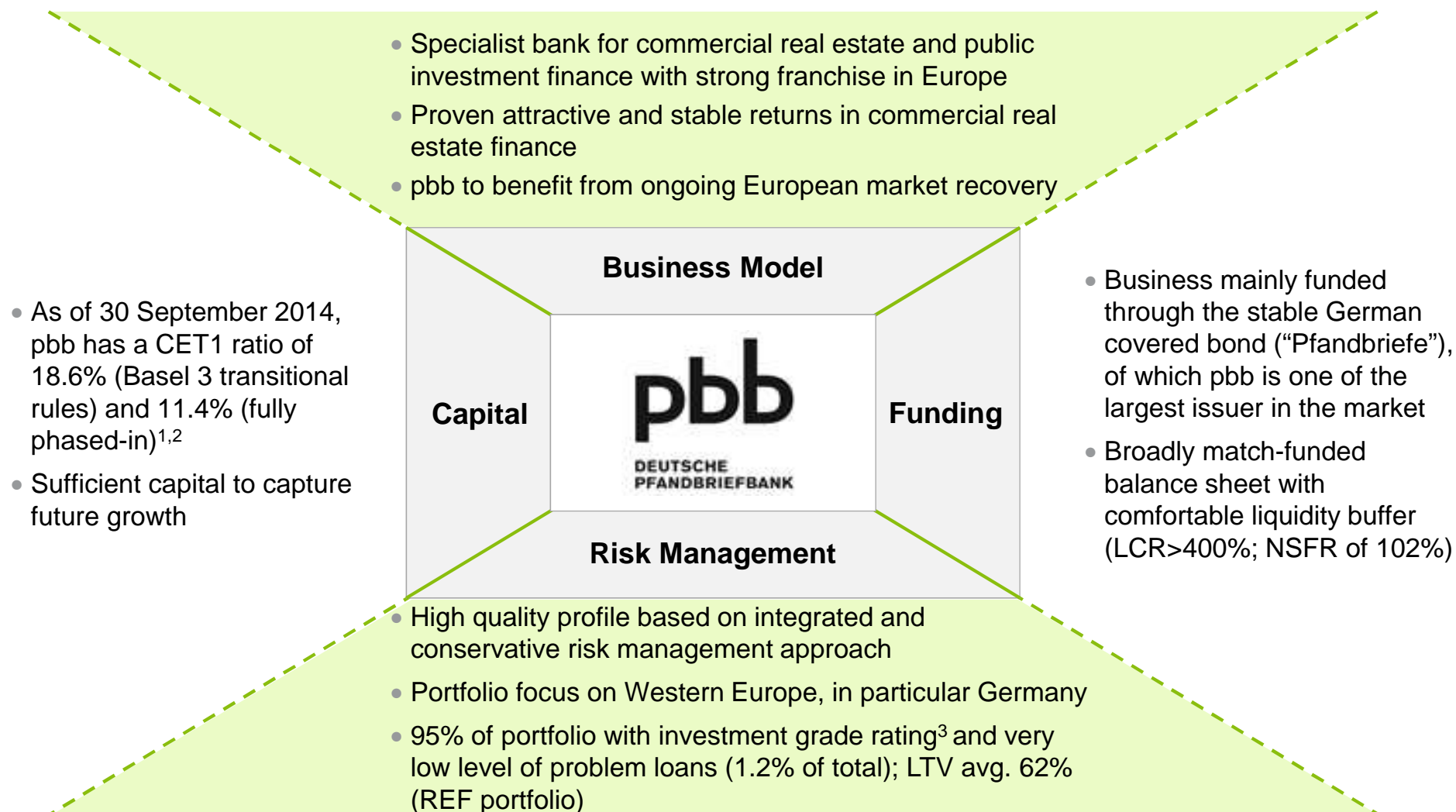
- RWA only slightly up in Q3 despite strong new business
- SoFFin silent participation (EUR 1 bn) currently recognised in CET 1 (fully phased-in: Additional Tier 1)
- Hybrid capital (EUR 350 mn) currently recognised with 80% in Additional Tier I (fully phased-in: not eligible)

Note: Figures may not add up due to rounding

1 No transitional rules to be applied 2 Simulation, incl. SolvV 100 netting 3 Incl. full-year result 2013 4 Based on currently known Basel III rules 5 Actual figures may vary significantly from simulation



## Building a strong stand-alone bank, independent of privatisation process and outcome



<sup>1</sup> The regulatory capital ratios stated are calculated on an unaudited pro-forma basis. According to the ‘Waiver Rule’ regulated in Article 7 CRR, Deutsche Pfandbriefbank AG, being a subsidiary of Hypo Real Estate Holding AG, is currently exempt from calculating the equity capital ratio and the core capital ratio on a sub-group level

<sup>2</sup> SoFFin silent participation (EUR 1 bn) currently recognised in CET 1 (fully phased-in: Additional Tier 1)

<sup>3</sup> Based on internal rating scale

- ▶ **Development of sustainable earnings base on track**
  - ▶ Positive earnings trend from lending business
  - ▶ Strategic core business growing, providing for increasing earnings
- ▶ **Sound capitalisation covers further growth and regulatory challenges comfortably**
- ▶ **Successful new business activities reflect the bank's standing as one of the leading players in its segment**
- ▶ **Stable funding base with diversified funding sources and investor base**
- ▶ **Well matched ALM profile with strong liquidity position**
- ▶ **Sustained strong asset quality – prudent underwriting and risk management framework designed to manage assets through the cycle**

## Contact Details



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