# Company Presentation

## 18th German Corporate Conference
## UniCredit / Kepler Cheuvreux
## 23 January 2019

Andreas Arndt, CEO/CFO

## Business Model & Strategy

## pbb is a leading commercial real estate lender with a complementary public investment finance business

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**FUNDING**

- Stable and well diversified funding base
  - Pfandbrief (leading issuer)
  - Senior unsecured bonds (preferred/non-preferred)
- Frequent benchmark issuer plus private placements
- Retail deposits (online)

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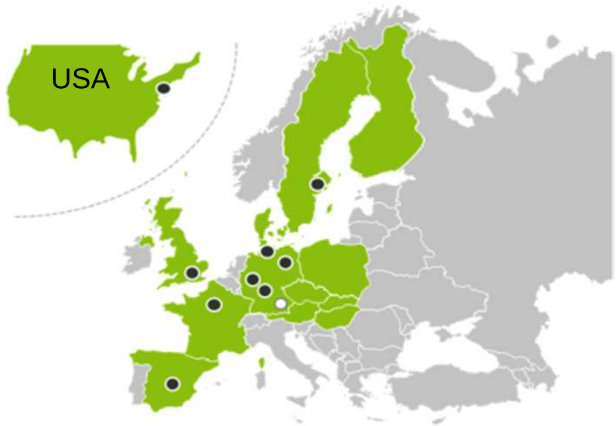
- Specialised on-balance sheet lender
- European franchise, complemented by the US
- Regional presence – 10 offices in Europe and New York
- High risk standards and focus on risk management

**LENDING**

- Core business segments
  - Real Estate Finance (REF)
  - Public Investment Finance (PIF)
- Pfandbrief-eligible senior loans
- Structuring expertise for complex/large transactions
  - ~200-250 deals p.a.
  - Ø deal size € 40-50 mn
- Long standing client relationships

| **Key figures** (IFRS) | **30/09/18** |
|---|---|
| Total assets | € 57.3 bn |
| Total equity | € 3.2 bn |
| RWA | € 13.5 bn |
| CET1 ratio[1] | 19.7% |
| Leverage ratio[1] | 5.3% |
| RoE after taxes[2] | 6.2% |
| FTE | 747 |




° Headquarter
• Branches/Rep. Offices

1 Incl. interim result Q1/18, post max. calc. dividend acc. to ECB methodology 2 After pro-rata AT1 coupon

**Promised and delivered**

## 2018 looks like another successful year

### 2018

**Strong performance in 9M/18**

- NII stronger than expected due to reduced funding costs
- LLPs and GAE below plan

**PBT full-year guidance for 2018 raised to € 205-215 mn**
(from initially € 150-170 mn)

- Assumptions for Q4:
  - Stable NII
  - Further additions to loan loss provisions
  - Increase in GAE

**New business[1] guidance 2018 of € 10-11 bn with typically strong Q4**

- Continued competitive pressure
- Conservative approach

### 2019

**pbb prepared to tackle challenges in 2019**

- Market environment and competitive dynamics in CRE finance expected to become even more demanding
- Higher funding costs expected, but spreads from new funding still below stock
- Additional cost due to investments and regulatory requirements expected

**Our positioning:**

- Selective and risk conservative business approach to defend margins and to manage risk
- Strong capital base
- Stable Pfandbrief funding
- Cautious expansion and investments into future while maintaining strict cost control

1 Incl. extensions >1 year

## Overview 9M 2018
**New business with continuous focus on risk conservative positioning**

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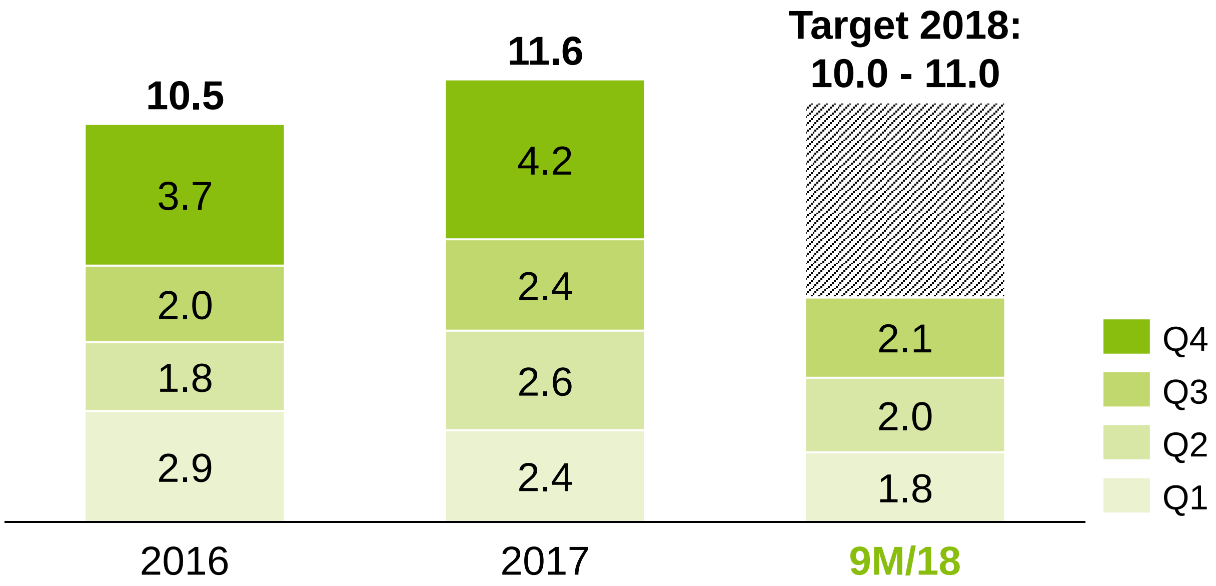
### New business volume
€ bn (commitments, incl. extensions >1 yr)




- Solid track record despite highly competitive market environment
  - New business volume between € ~10-12bn, typically strong Q4
  - Avg. gross margin slightly down, but portfolio margin relatively stable due to improved funding costs
  - Avg. LTV between 60-63% (REF)

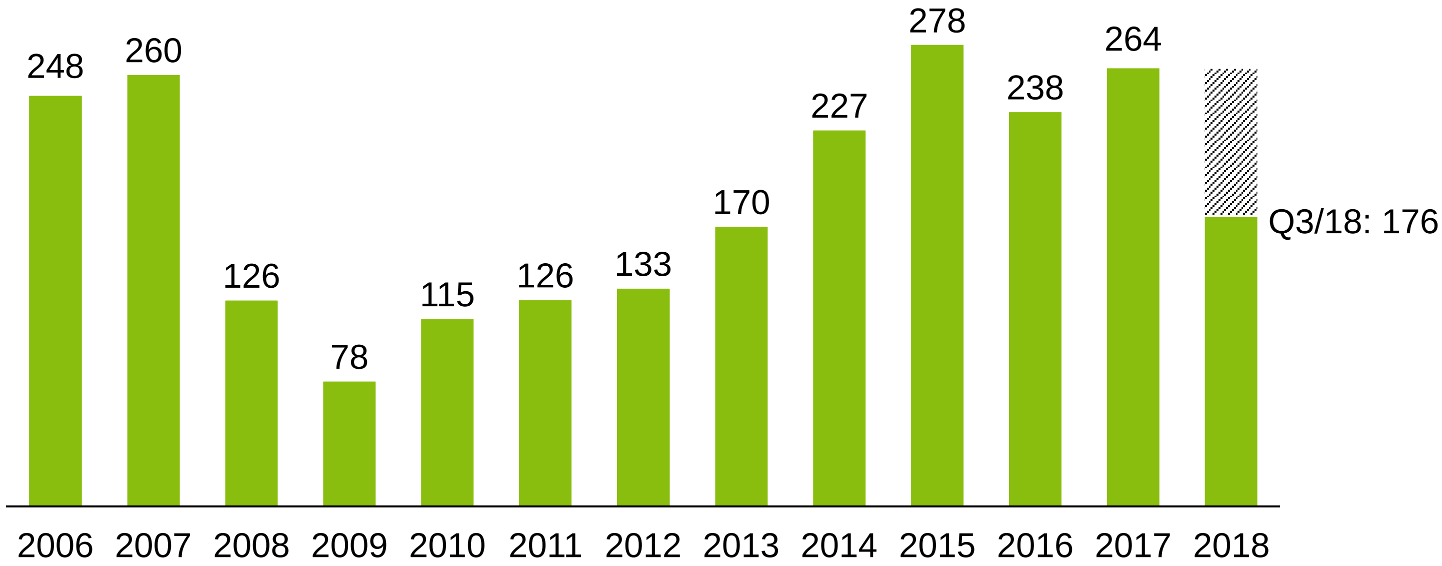
Note: Figures may not add up due to rounding

## Markets

## CRE market environment remains highly competitive and challenging – pbb maintains selective approach

### European CRE investment volume

€ bn

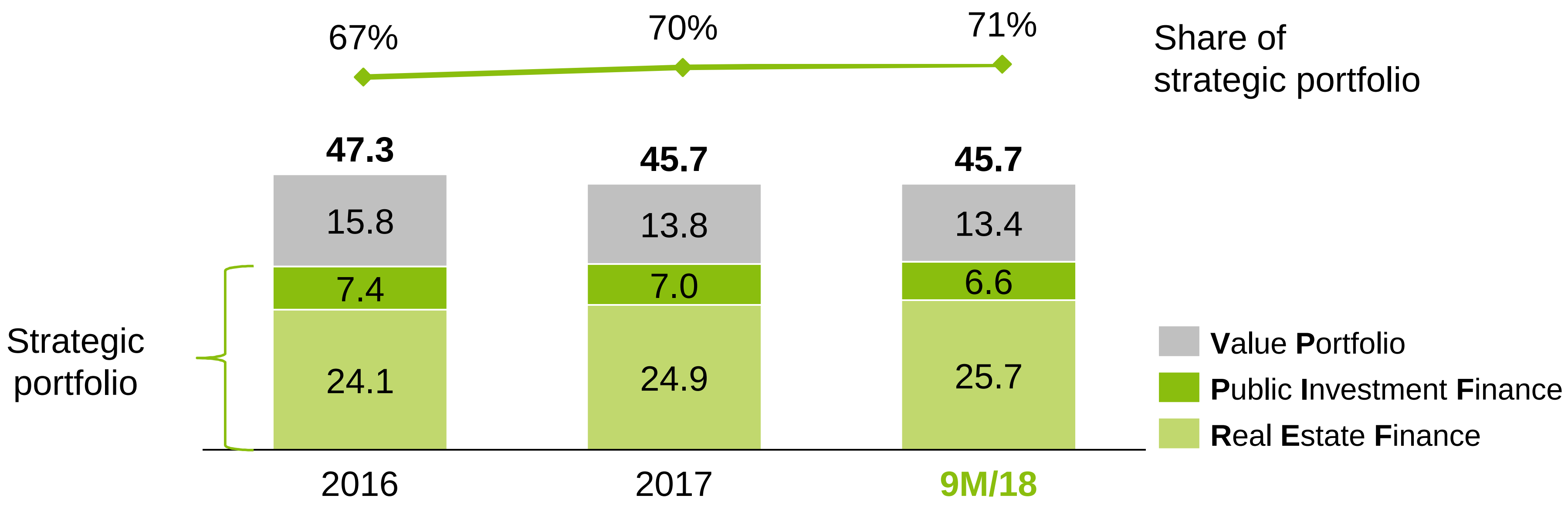



- Despite ongoing political uncertainties, underlying trends look rather positive for the European economy
- Positive momentum for CRE investments in Europe continued in 2018 – similar investment levels compared to 2017 are expected
- Retail saw a structural decline in volumes over the last years while logistics and alternative property types (hotels) increased
- Global uncertainties are so far not deflecting investors who trust the stable positive environment and healthy occupier markets

Source: pbb, CBRE Research, RealCapital Analystics

## Overview 9M 2018
**Strategic portfolio constantly increasing**

**Portfolio**
€ bn (financing volumes)




- REF main strategic anchor
- PIF complementary contribution business
- Non-strategic Value Portfolio in run-down

Note: Figures may not add up due to rounding

# Overview 9M 2018
## Strong performance

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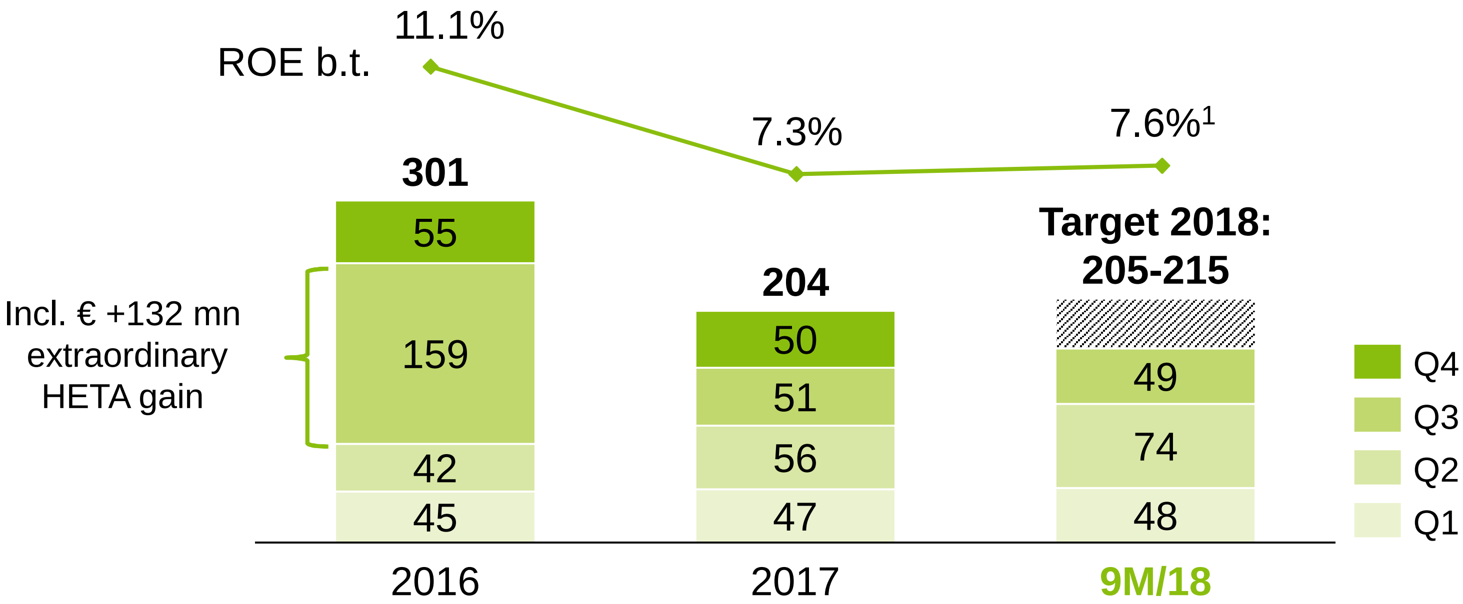
### Pre-tax profit
€ mn (IFRS)



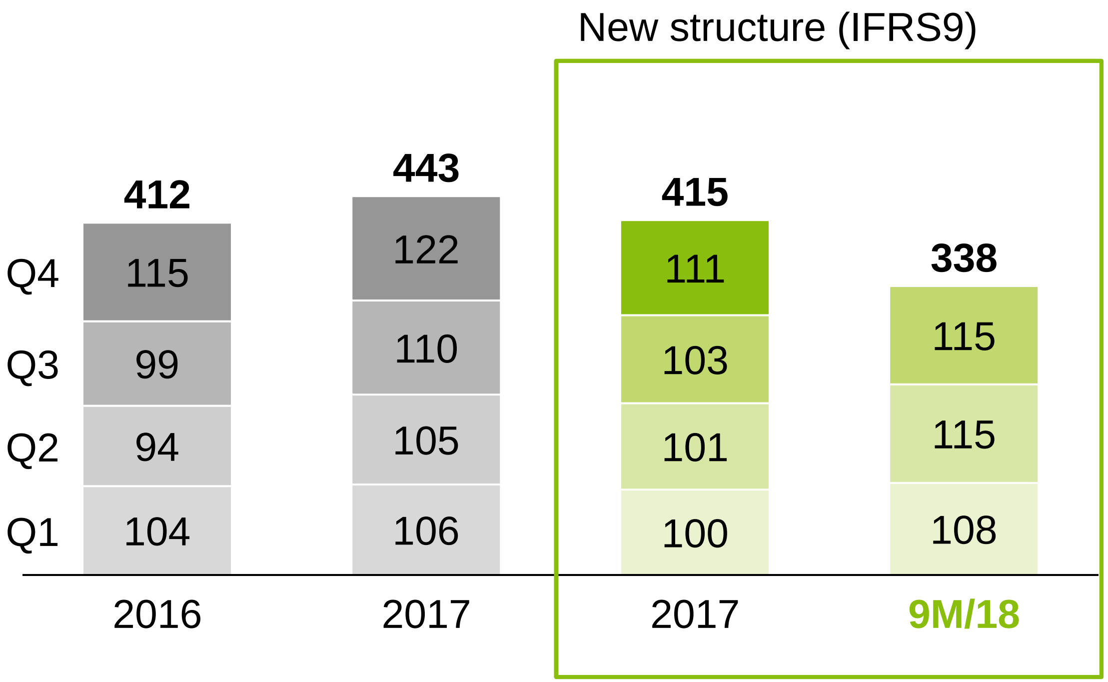

- PBT guidance 2018 raised from € 150-170 mn to € 205-215 mn
  - NII stronger than expected
  - LLPs and GAE below plan
- ROE in line with conservative business model and risk positioning

Note: Figures may not add up due to rounding 1 RoE as of 30/09/2018; Taking into account pro-rata AT1 coupon for 2018 (€ 12 mn pre-tax)

## Overview 9M 2018

### Solid development of net interest income despite competitive market environment

**Net interest income**
€ mn



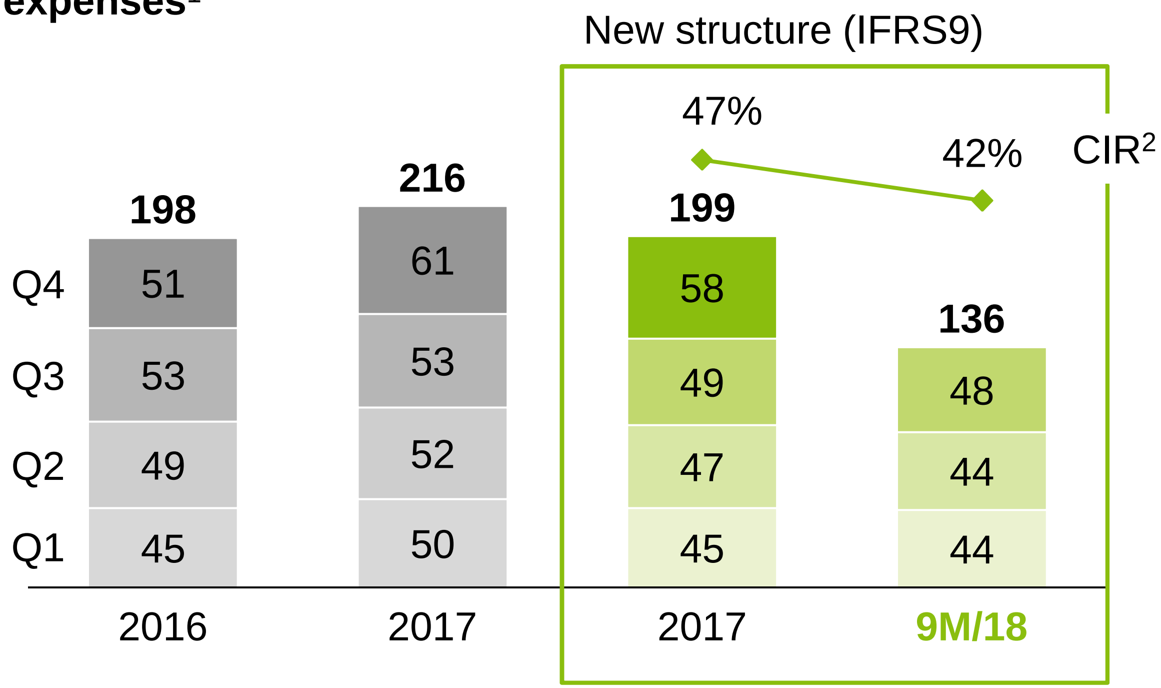

- Drivers of strong NII development
  - pbb managed to keep new business gross margin stable despite competitive pressure while maintaining risk standards (pos. effect from business selection & mix)
  - pbb increased strategic financing volume to € 32.3 bn (09/17: € 31.8 bn)
  - pbb significantly reduced funding costs
  - Avg. total portfolio margin stable

Note: Figures may not add up due to rounding

# Overview 9M 2018

## Operating cost development reflects strict cost management

**General & administrative expenses**[1]
€ mn




- Slight cost increase expected in Q4/18 and going forward - driven by regulatory costs and strategic investments (e.g. digitalisation)
- Strict cost containment running the bank to free up potential for future investments

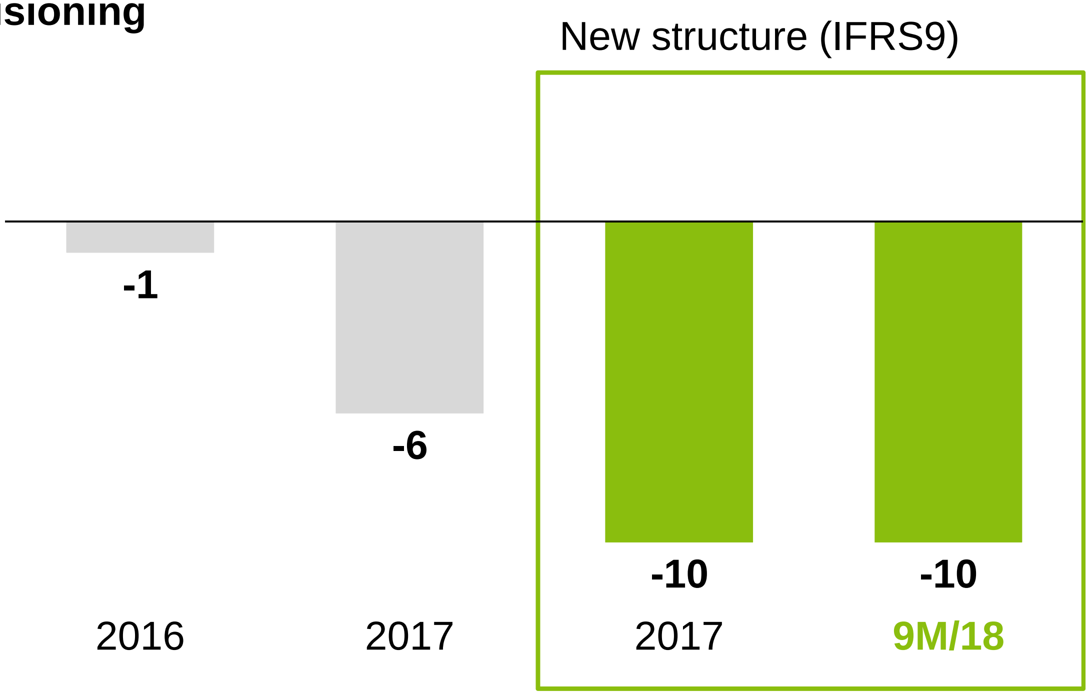
Note: Figures may not add up due to rounding 1 Without net income from write-downs and write-ups on non-financial assets (12/17: € -14 mn; 09/18: € -11 mn) 2 CIR = (GAE + net income from write-downs and write-ups on non-financial assets)/operating income

# Overview 9M 2018

## Risk provisioning reflects risk conservative business approach and local market developments

**Net income from risk provisioning**

€ mn (IFRS)




- 3 stage logic of IFRS 9 leads to provisioning without payment default and at earlier point in time
- Nevertheless, so far continued low level of risk provisioning
  - benefiting from supportive market environment
  - but also clearly reflecting pbb's strict risk management

Note: Figures may not add up due to rounding

## Structural challenges
**Increasing yields lead to changes in valuations**

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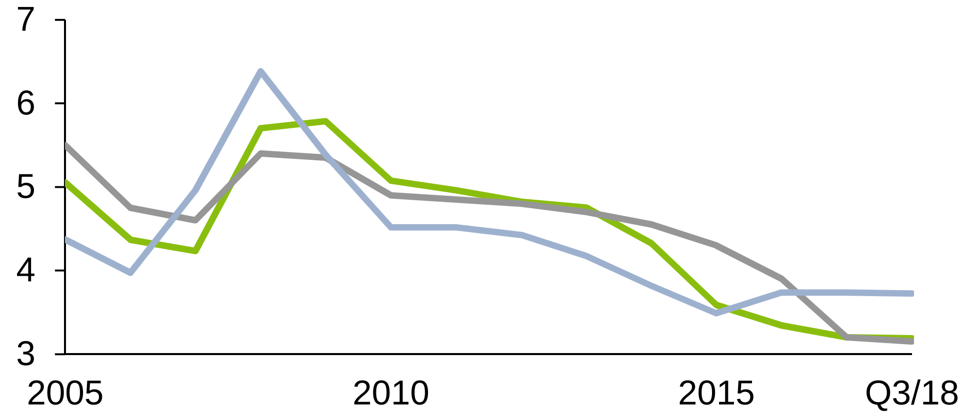
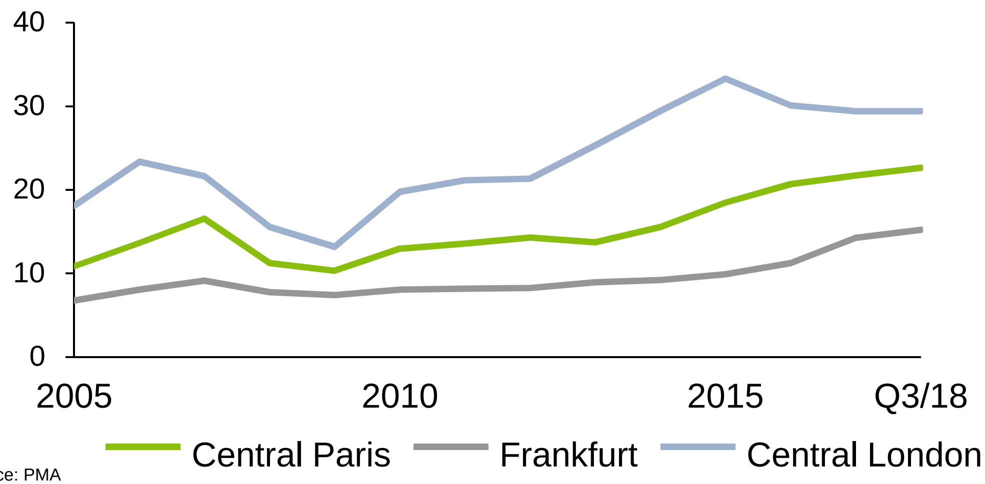
### Prime yields – Office
%




### Prime capital values – Office
€ thousands per sqm




Source: PMA

### Future challenges for risk costs
- Macroeconomic environment & geopolitical risks
- Valuation, liquidity & rate levels
- Project cash flows

### pbb applies conservative risk policy to manage risks
- Location: prime locations, diversification, low LTV
- Sponsor: high equity, strong track record
- Business case: stable cash flows
- Structure: covenants

## Structural challenges

**Small portfolio of non-performing loans with NPL ratio of only 0.7% and almost no workout loans**

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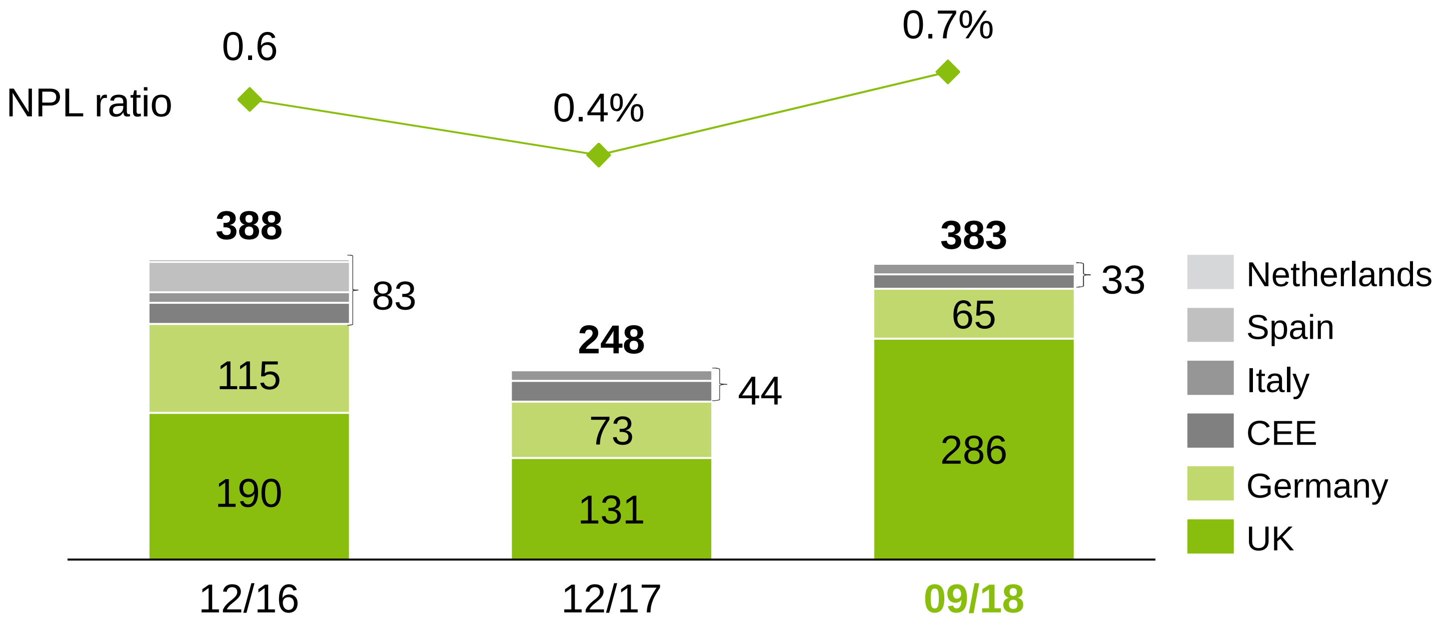
### Non-performing loans

€ mn (EaD, Basel III)




- pbb shows low NPL ratios – also compared to peers
- Estate UK-3 securitization to hedge historic UK loans technically shown as non-performing
- Addition of UK loan exposures in the sub-segment Shopping Centers in Q3/18 – LTV covenant breach, no payment default

Note: Figures may not add up due to rounding

## Structural challenges

**Changing market development requires continuous adaption of business approach – pbb maintains strong anchor in Germany**

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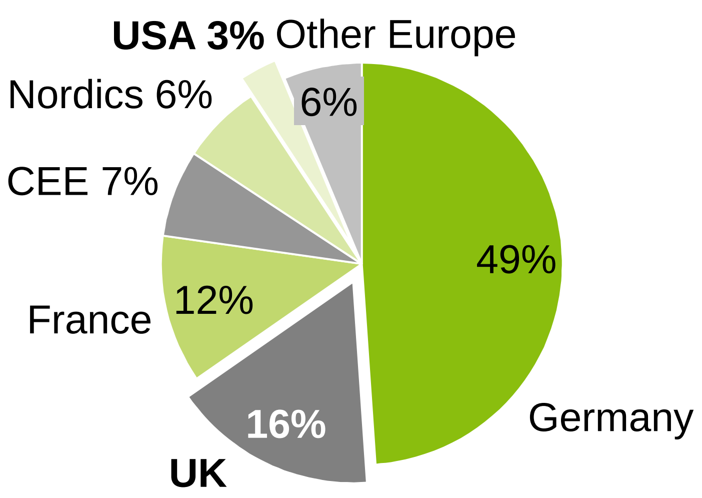
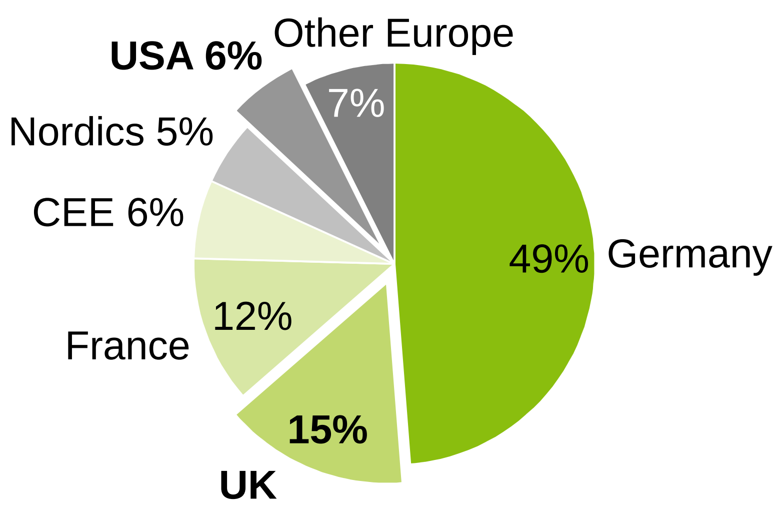
### Real Estate Finance (REF)

Portfolio (EaD, Basel III)

**31.12.2017: € 28.3 bn**




**30.09.2018: € 28.7 bn**




- Selective approach with focus on conservative risk positioning – business continuously adapted to changing market developments
  - Increasing share of US-business compensating decreasing UK-business
  - Cautious on retail/shopping properties
- Stable gross interest margin in new business ~155 bp (2017: >155 bp)

Note: Figures may not add up due to rounding

## Structural challenges
## Markets on focus

**Risk approach / strategy**

**UK & Brexit**

- Macroeconomic risk increased after 15/01/19
- Critical focus on UK retail
- Long-term view on CRE markets (prime locations, low LTV)

**Cautious on UK**

**Italy & spread developments**

- Italian public sector exposure (nominal: € 1.6 bn) largely booked at amortized costs (>85%)
- Spread developments with only marginal valuation impact on P&L

**Further reduce Italy**

**US business**

- Most transparent and liquid real estate market
- Relatively stable market development
- pbb focusses on East coast prime locations with selective business in Chicago, San Francisco, Los Angeles and Seattle

**Seize opportunities in the US**

## Structural challenges

**High portfolio quality with 95% investment grade and avg. LTV of 54%**

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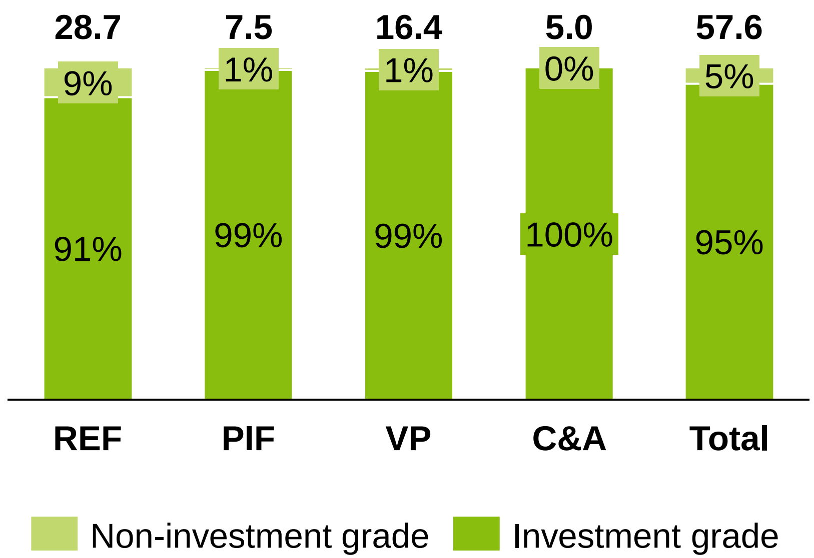
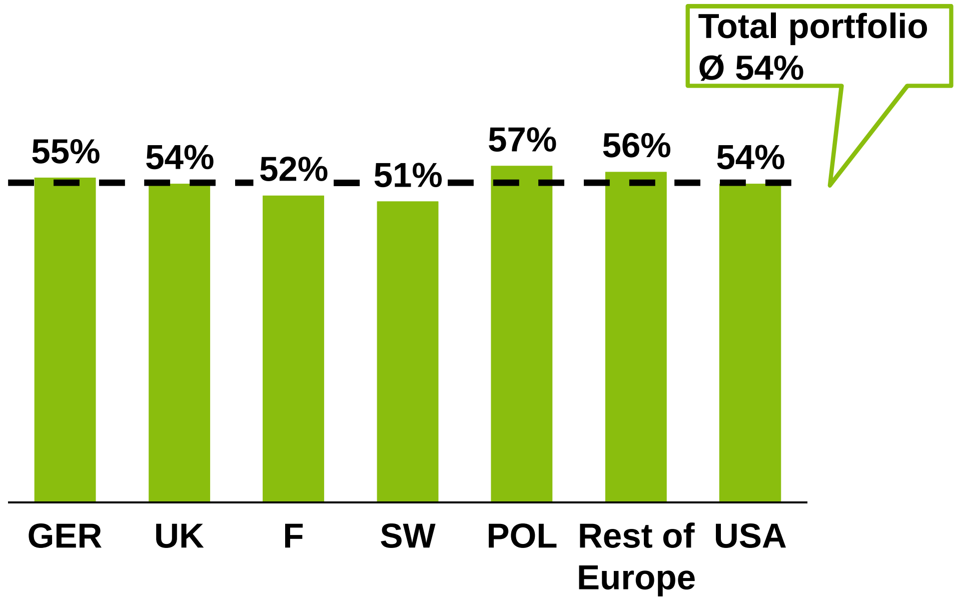
### Total portfolio: Internal ratings (EL classes)[1]

as of 30/09/18; € bn (EaD, Basel III)




### REF Portfolio: Avg. weighted LTVs

as of 30/09/18; % (commitments; EAD, Basel III)[2]




Note: Figures may not add up due to rounding 1 EL classes 1-8 = Investment grade; EL classes 9-18 = Non-investment grade 2 Based on performing investment loans only

## pbb aims to mitigate recent spread increase through optimization of funding structure

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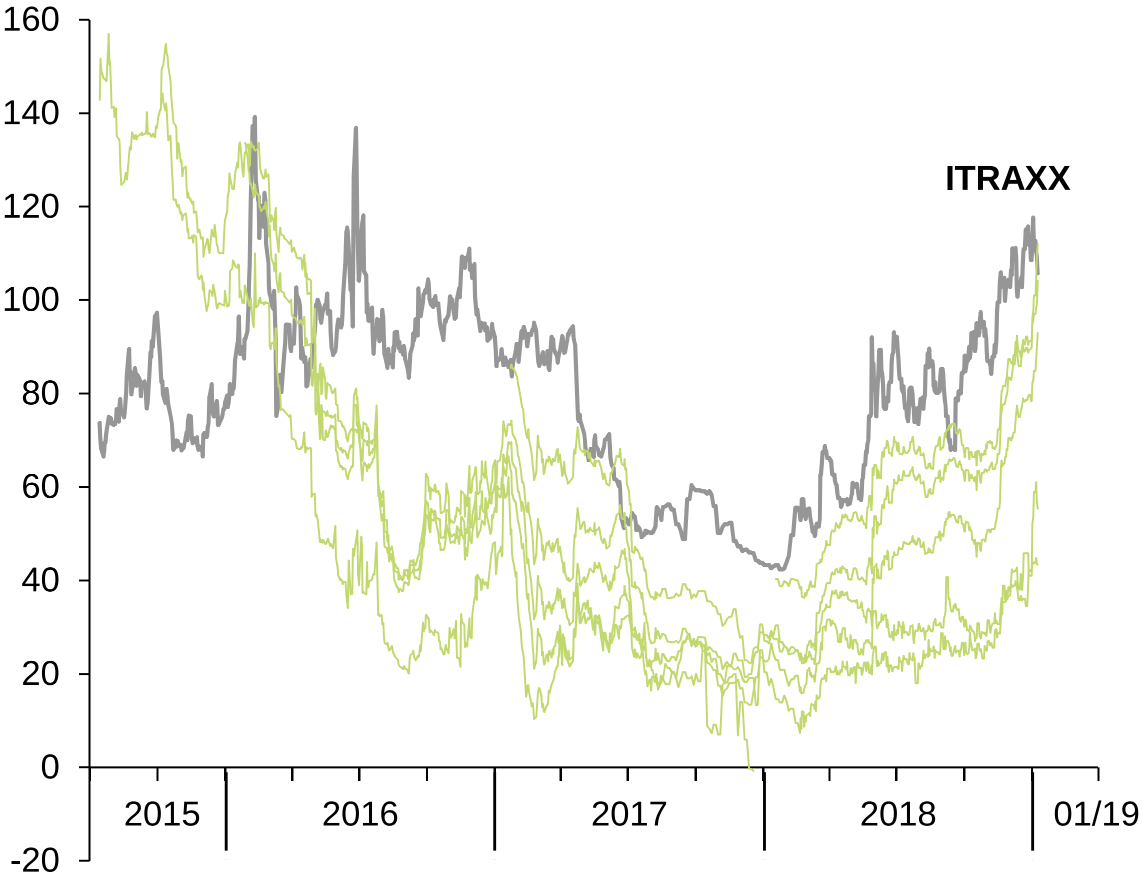
### Spread development of pbb Senior Unsecured Benchmarks vs. iTraxx Bank Senior

(Spread vs. 6m Euribor)




- Pfandbrief Funding
  - Mortgage and Public Pfandbriefe
- Unsecured Funding
  - Senior preferred bonds
  - Senior non-preferred bonds
  - Overnight and term deposits
- Retail funding – pbb direct
- Different currencies
  - EUR, USD, GBP, SEK
- Benchmark and private placements

Source: Bloomberg

# Structural challenges

## Funding: pbb one of the largest Pfandbrief issuers – broad range of funding instruments in different currencies

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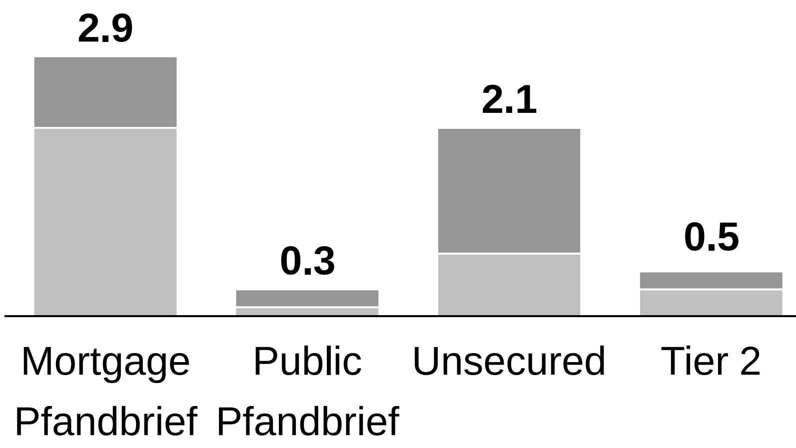
**New long-term funding[1]**
€ bn

Private placements
Benchmark issuances

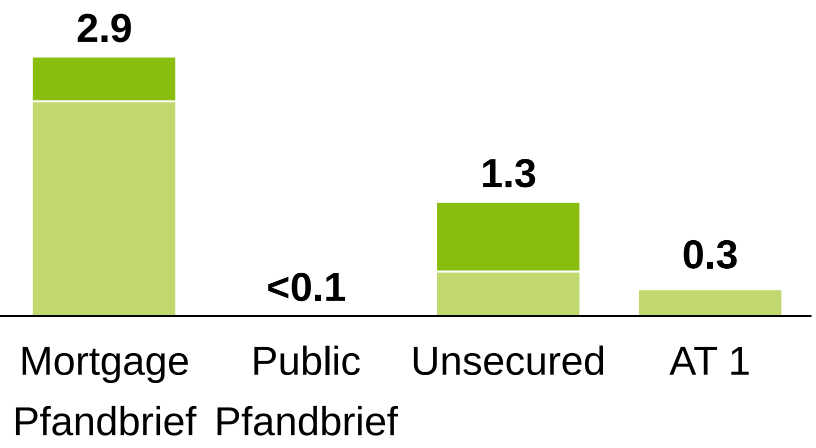
**9M/17: € 5.8 bn**

| | Mortgage Pfandbrief | Public Pfandbrief | Unsecured | Tier 2 |
|---|---|---|---|---|
| **Spread** (Ø, bp)[2] | 17 | 11 | 77 | |
| **Tenor** (Ø, yrs)[3] | 5.8 | 6.2 | 7.4 | |




**9M/18: € 4.7 bn**

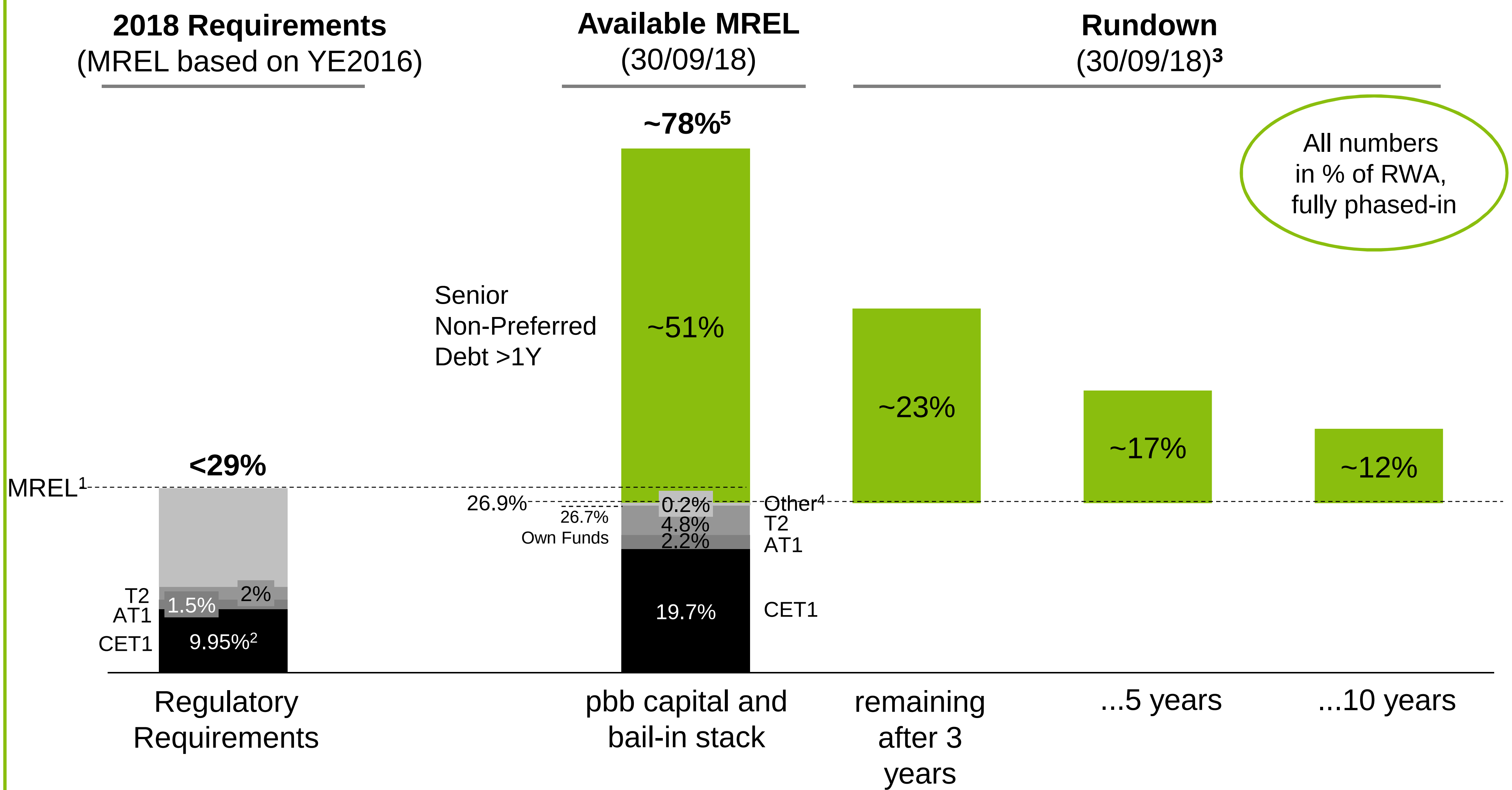
| | Mortgage Pfandbrief | Public Pfandbrief | Unsecured | AT 1 |
|---|---|---|---|---|
| **Spread** (Ø, bp)[2] | 3 | 0 | 46 | |
| **Tenor** (Ø, yrs)[3] | 7.3 | 20 | 7.4 | |




- German Pfandbrief main funding instrument, remainder funded unsecured
- Frequent benchmark issuer, strong position in private placements
- In addition, online platform pbb direkt for retail deposits
- New debt product "senior preferred" provides new funding opportunities

Note: Figures may not add up due to rounding    1 Excl. retail deposit business    2 vs. 3M Euribor    3 Initial weighted average maturity

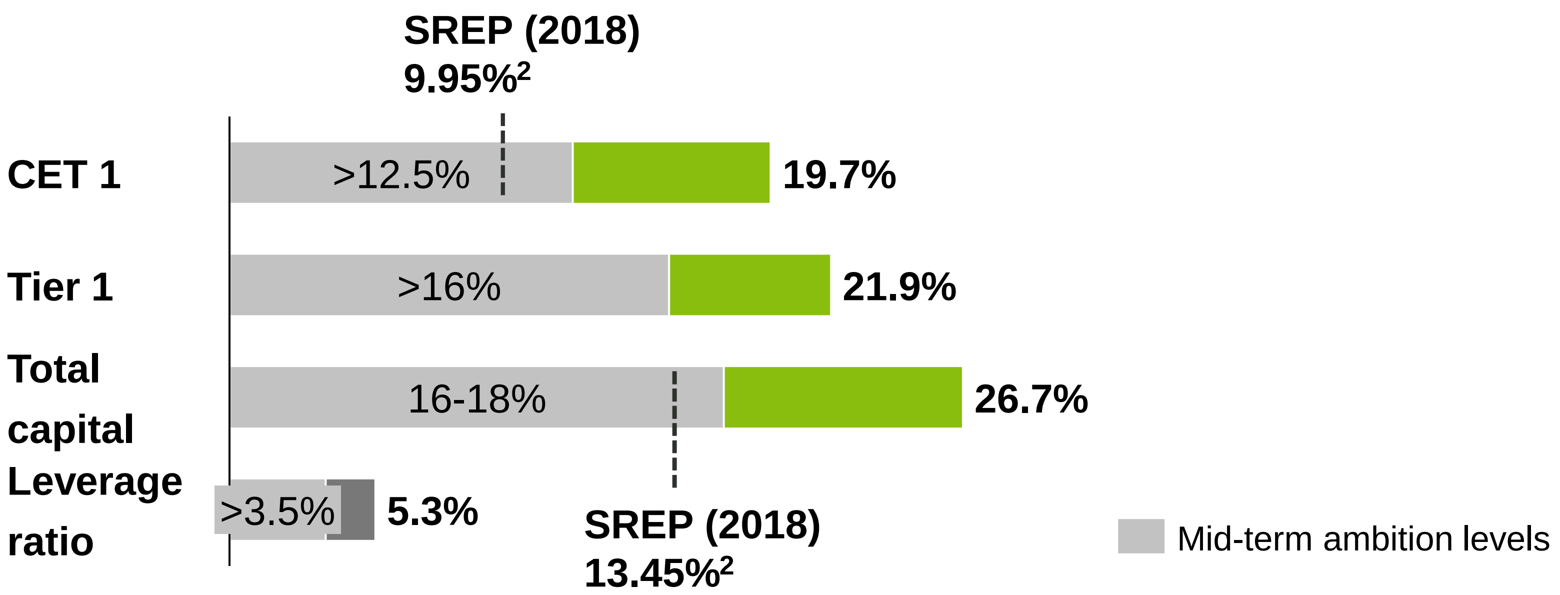
## Structural challenges
## Significant MREL buffer allows for focus on senior preferred issues




1 MREL may vary; the 2018 MREL requirement is set as a percentage below 8% of Total Liabilities and Own Funds (TLOF) calculated on the basis of RWA as of 31 December 2016 2 Overall Capital Requirement (OCR), fully-phased in, combined buffer requirement including anticipated countercyclical buffer 3 MREL-eligible Senior Non-Preferred Debt >1Y according to legal maturities; in % of RWA assuming constant regulatory RWA as of 30 September 2018; the capital stack includes € 300 mn AT1 issuance callable in 2023 and € 300 mn T2 issuance callable in 2022 4 T2 instruments no longer eligible for Own Funds but eligible for MREL 5 Due to amortization of SNP debt %-MREL approx. 7% points lower YE 2018.

## Capital, dividend and RWA-challenges
**Strong capital ratios provides strategic advantage**

### Basel III: Capital ratios (fully-loaded)[1]
30/09/18: % (IFRS)



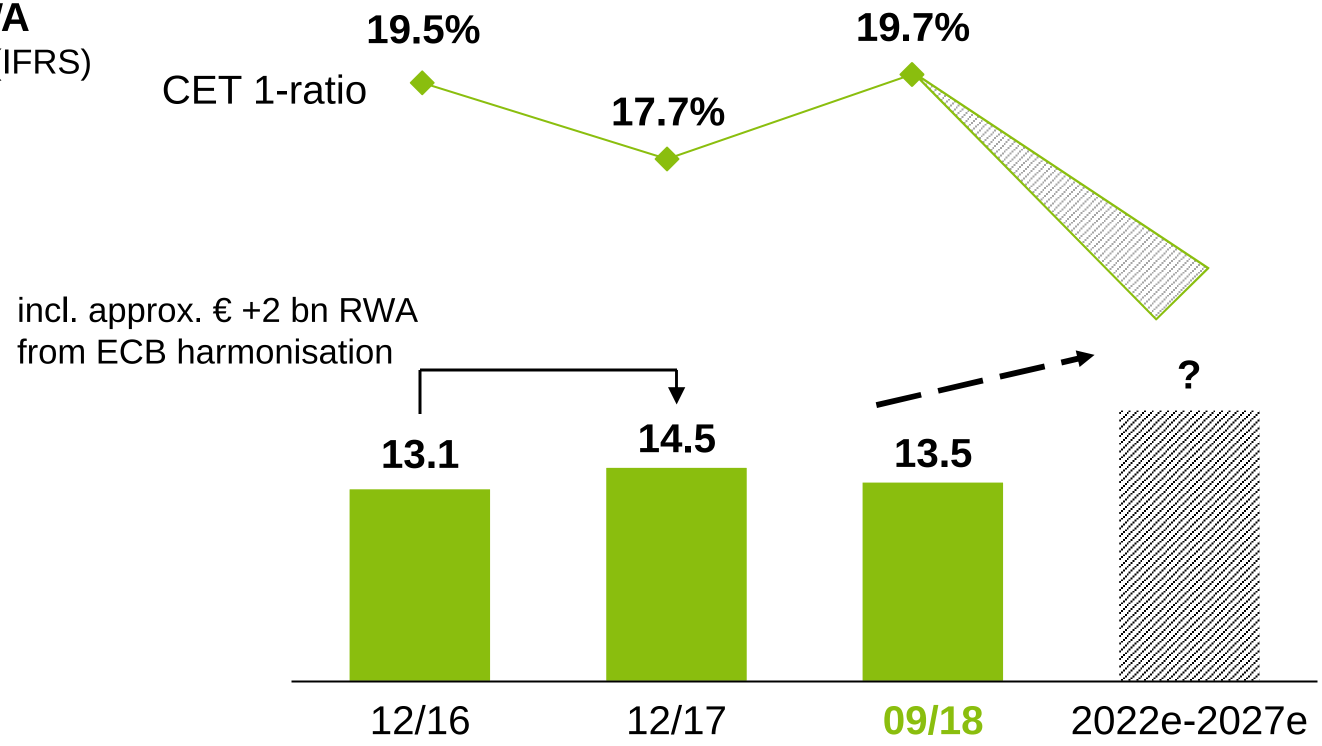

- Capital ratios well above regulatory minimum requirements
- pbb retains capital buffers for further RWA challenges
  - regulation (TRIM/Basel IV)
  - potential strategic growth
  - cyclical risks/ strategic measures

Note: Figures may not add up due to rounding 1 incl. interim result Q1/18, post max. calc. dividend acc. to ECB methodology 2 Incl. anticipated countercyclical buffer (0.2%; actual as of 31.12.2017: 0.11%), based on present P2R

# Capital, dividend and RWA-challenges

## Sufficient buffer for regulatory changes ahead

**Basel III: RWA**
30/09/18: € bn (IFRS)



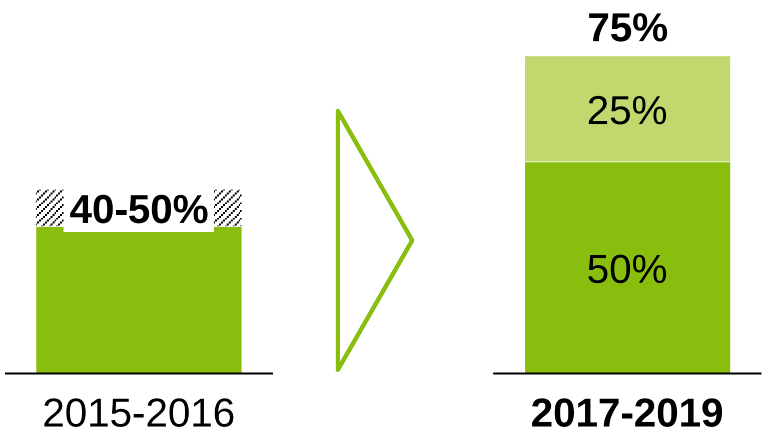

- Adequate buffers, essential for regulatory changes, operational stability and strategic flexibility
- RWA down by € -1.0 bn in 9M/18 mainly due to LGD changes and maturities

Note: Figures may not add up due to rounding 1 incl. interim result Q1/18, post max. calc. dividend acc. to ECB methodology 2 Incl. anticipated countercyclical buffer (0.2%; actual as of 31.12.2017: 0.11%), based on present P2R

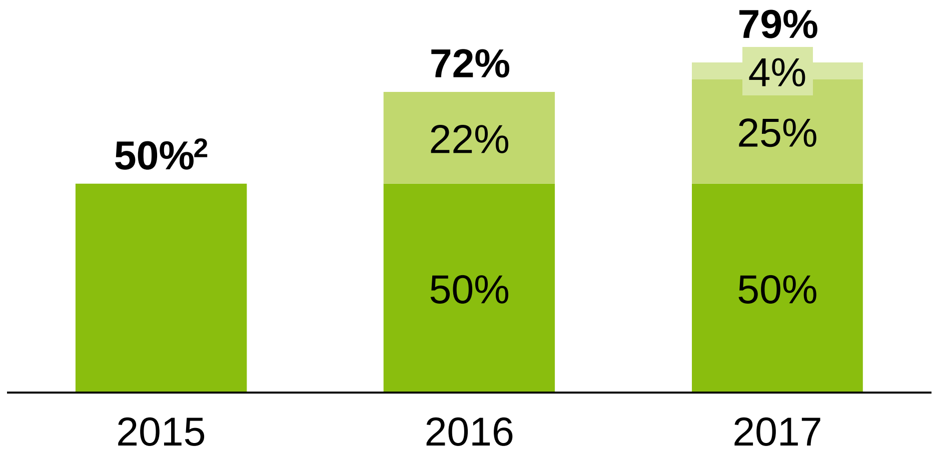
## Capital, dividend and RWA-challenges

## pbb provides attractive dividend yield with 75% pay-out until 2019

### Dividend strategy (payout ratio[1])




### Dividend payment (payout ratio[1] / abs.)




| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **DPS** | **0.43 €** | **1.05 €** | **1.07 €** |
| **Div. Yield[3]** | **7.7%** | **11.5%** | **8.0%** |

Regular dividend Supplementary dividend Add-on

1 Based on IFRS group profit after tax 2 Annualised; dividend payment only for period after IPO (16.07.2015) 3 based on year-end closings

## Challenges

## Focus and Invest – pushing forward strategic initiatives to strengthen market position and support profitability

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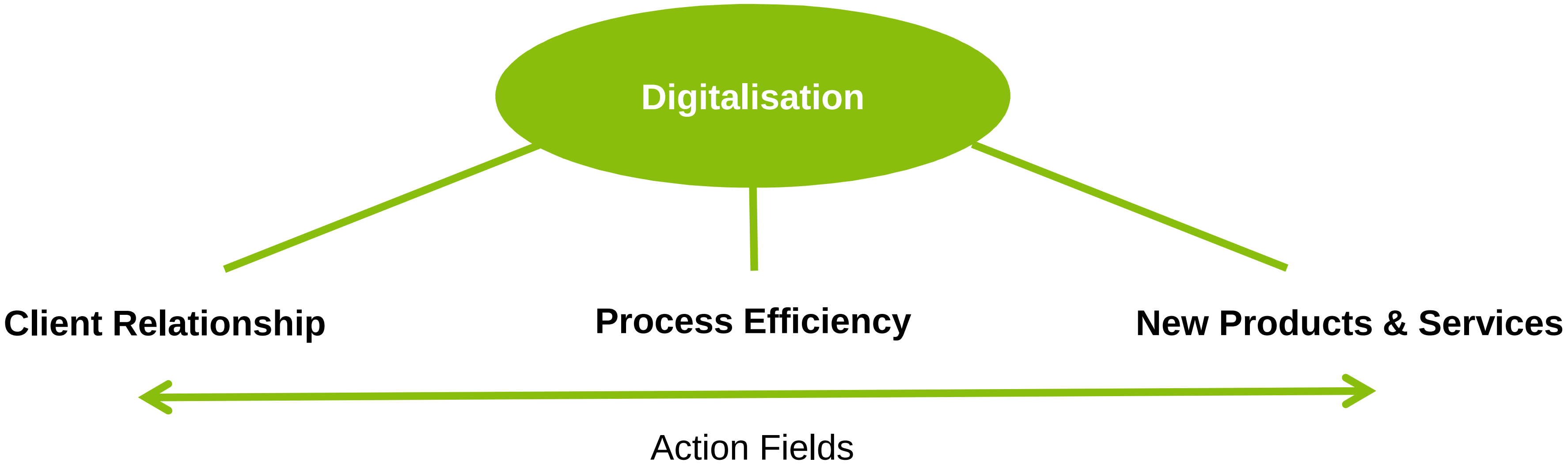
**Focus**

- Reorganisation of business segment PIF – optimization of business approach, organisational setup and headcount
- Centralisation of functions

**Invest**

- Further expansion of US business
- Implementation of digitalisation as integral concept in pbb



## Our DNA
## Why to invest in pbb?

- **High asset quality**
- **Conservative, sustainable business approach based on strict risk standards**
- **Strong operating track record**
- **Strong capital base, providing adequate buffer for challenges ahead**
- **Attractive dividend yield and valuation**
- **Cautiously expanding and investing**

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