

Strong Capitalization to be further improved by  
EUR Tier 2 Benchmark



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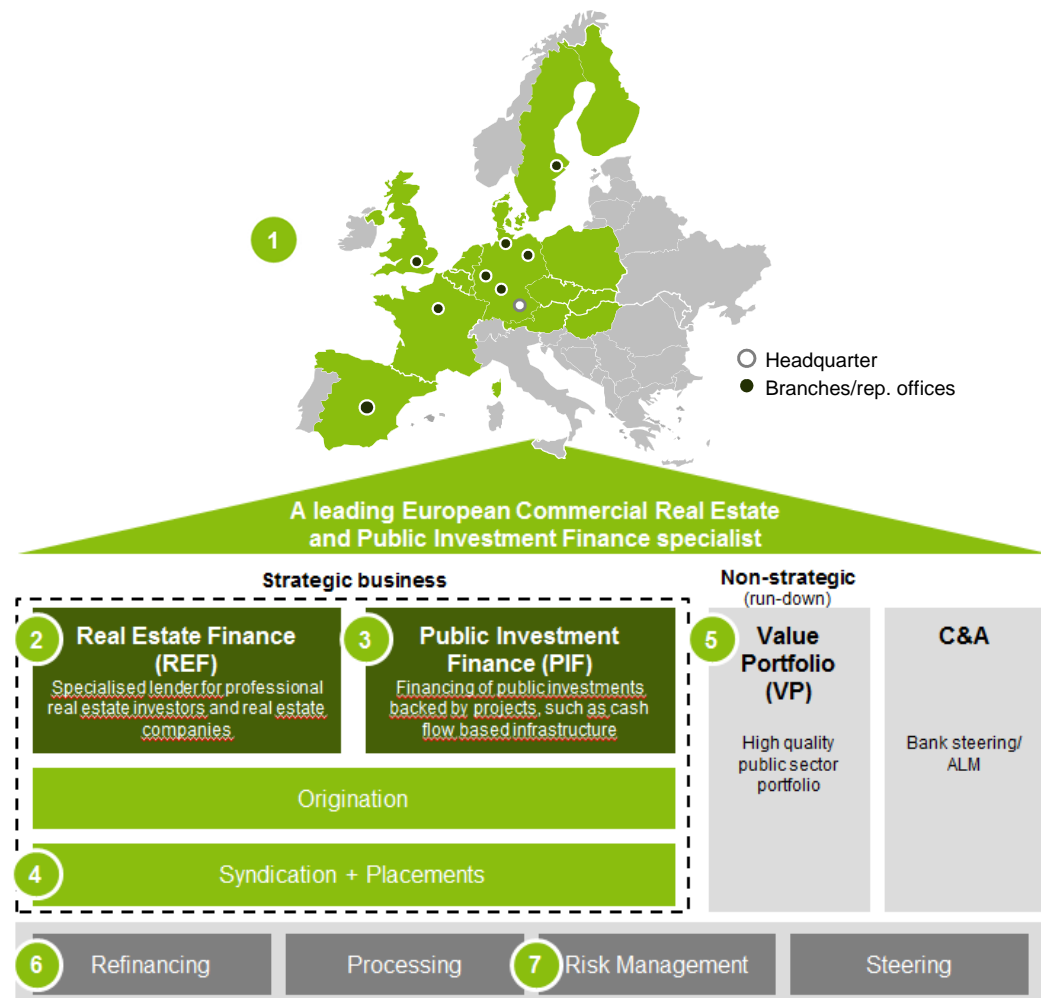


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## Business model & strategy

Balanced business model with European coverage – US market entry provides business opportunities as a complement

- 1 European presence with strong footprint in Germany – US business as a complement
- 2 REF well established with long-standing client relationships and highly experienced, skilled and stable origination teams
- 3 PIF developing as complementary contributor to REF, supporting revenue stream
- 4 Syndication and placement activities as risk management tool
- 5 Capital reallocation from Value Portfolio allows for build-up of higher-margin strategic portfolio
- 6 Stable and well diversified funding base with German Pfandbrief as main funding instrument
- 7 Fully integrated front-to-back risk governance on unified and up-to-date IT platforms provides for efficient and effective workflows



# Highlights

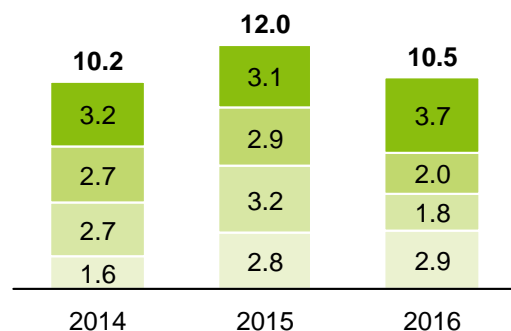
## Operating and financial overview – solid underlying financial performance despite headwinds



### New business

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

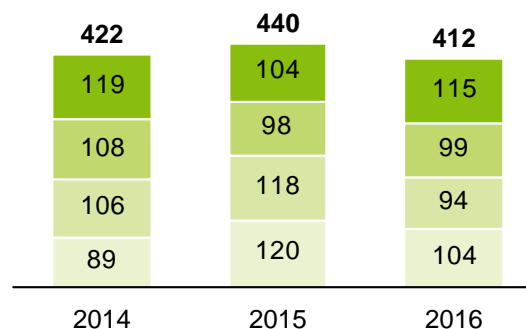
Q4  
Q3  
Q2  
Q1



### Net interest and commission income

EUR millions (IFRS)

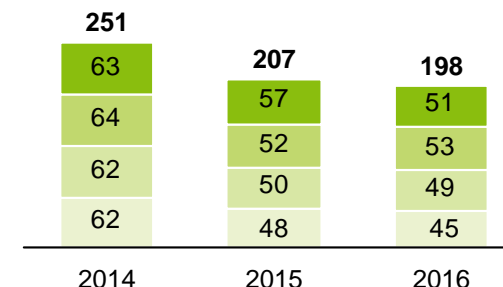
Q4  
Q3  
Q2  
Q1



### General and admin. expenses

EUR millions (IFRS)

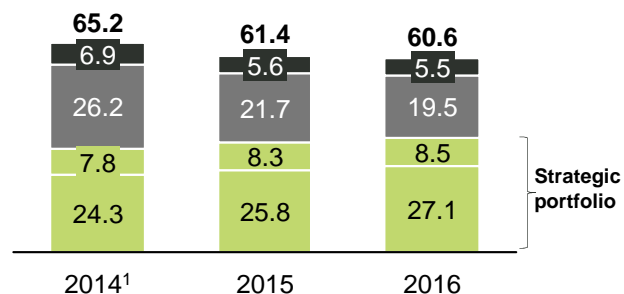
Q4  
Q3  
Q2  
Q1



### Portfolio

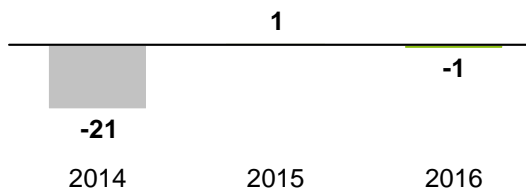
EUR billions (EaD)

C&A  
VP  
PIF  
REF



### Loan-loss provisions

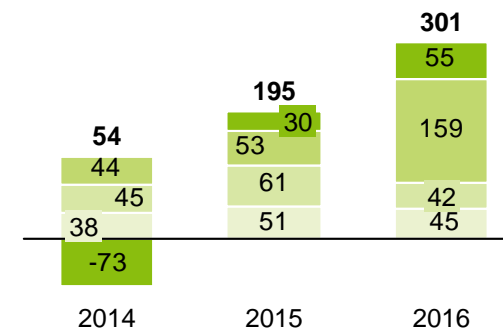
EUR millions (IFRS)



### Pre-tax profit

EUR millions (IFRS)

Q4  
Q3  
Q2  
Q1



Note: Figures may not add up due to rounding 1 Restated; figures retrospectively adjusted for transfer of Italian PIF portfolio into VP (as of 01/01/15)

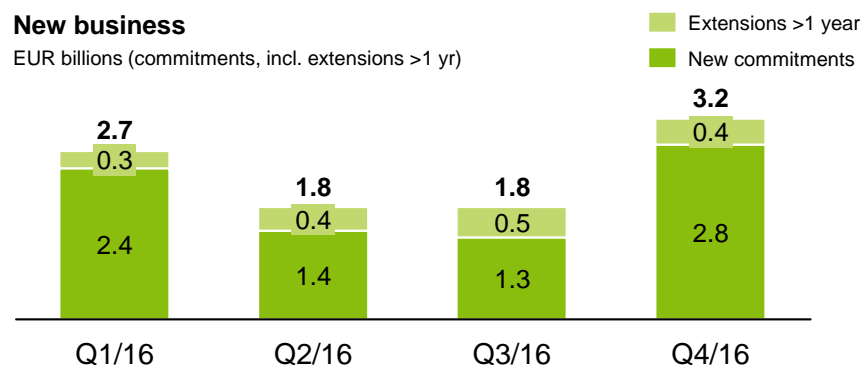
## Segment reporting: Real Estate Finance (REF)

**Strong Q4 and stable level of new commitments – successful US entry with 3 % of new business**



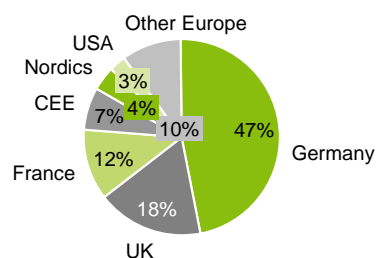
### New business

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



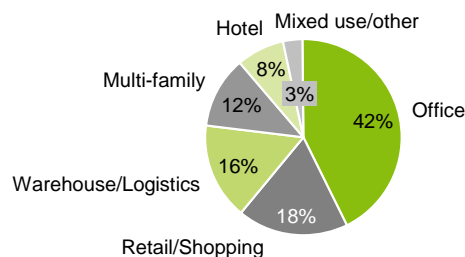
### Regions

2016: EUR 9.5 bn



### Property types

2016 EUR 9.5 bn



New business	2015	2016
Total volume (EUR bn)	10.4	9.5
<i>thereof: Extensions &gt;1 year</i>	2.3	1.6
No. of deals	180	189
Average maturity (years) <sup>1</sup>	~5.7	~5.1
Average LTV (%) <sup>2</sup>	63	62
Average gross margin (bp)	>170	>175

### Income statement (IFRS, EUR mn)

	2015	2016
Operating income	358	306
<i>thereof: Net interest income</i>	308	321
<i>Net commission income</i>	14	9
<i>Other revenues</i>	36	-24
Loan-loss provisions	7	2
General administrative expenses	-160	-156
<b>Pre-tax profit</b>	<b>206</b>	<b>146</b>

### Key drivers 2016:

- NII up +4 % y-o-y, positively driven by
  - increased portfolio volume
  - higher (allocated) prepayment fees (Δ 2016 vs. 2015: EUR +13 mn)
- Other revenues negatively affected by
  - lower net income from financial instruments, partly compensated by market induced valuation effects (NTI)
  - 2015 benefited from a sale of a restructured property in Japan (EUR +39 mn) and gains on (allocated) asset sales (compensatory measure for HETA value adjustments)
- EUR 2 mn net release of LLPs – net additions to specific allowances resulted from a few single cases only – LLPs in Q4/16 benefited from releases of specific allowances
- GAE slightly down

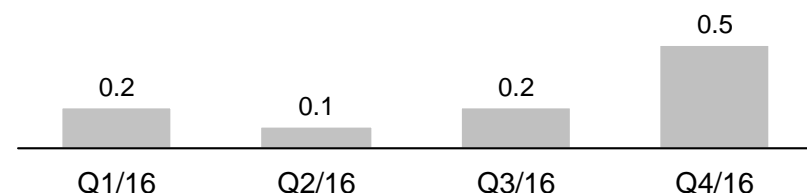
Note: Figures may not add up due to rounding    1 Legal maturities    2 New commitments; avg. LTV (extensions): 2015: 56%; 2016: 56%

## Segment reporting: Public Investment Finance (PIF)

**Strong competition and standstill on ECA financing in Germany weighs down on new business volume**

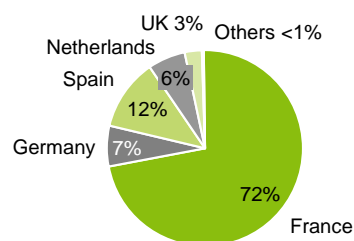
### New business

EUR billions (commitments)



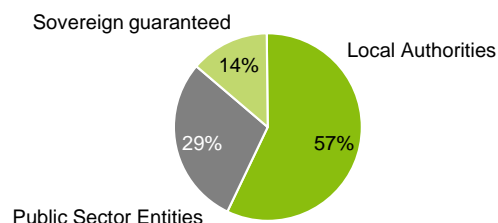
### Regions

2016: EUR 1.0 bn



### Counterparty Types

2016: EUR 1.0 bn



### New business

	2015	2016
Total volume (EUR bn)	1.6	1.0
No. of deals	48	28
Average maturity (years) <sup>1</sup>	~8.4	~8.8
Average gross margin (bp)	~75	~85

### Income statement (IFRS, EUR mn)

	2015	2016
Operating income	41	30
<i>thereof: Net interest income</i>	44	35
Loan-loss provisions	-	-
General administrative expenses	-28	-26
<b>Pre-tax profit</b>	<b>13</b>	<b>3</b>

### Key drivers 2016:

- NII down as last year benefited from EUR +9 mn (allocated) gain from asset sales (compensatory measures for HETA value adjustments)
- Increase of portfolio volume with stable portfolio margin
- GAE slightly down due to lower FTEs

Note: Figures may not add up due to rounding <sup>1</sup> Weighted average lifetime

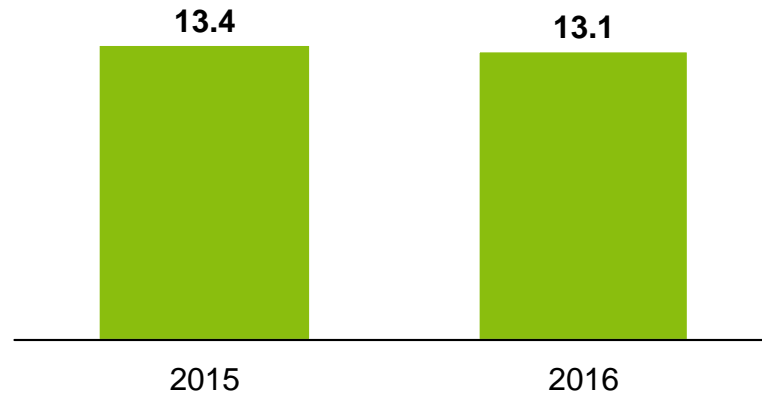
## Portfolio

**Conservative business and risk strategy to continue – stable high portfolio quality with 97% investment-grade, avg. LTV of 56%**



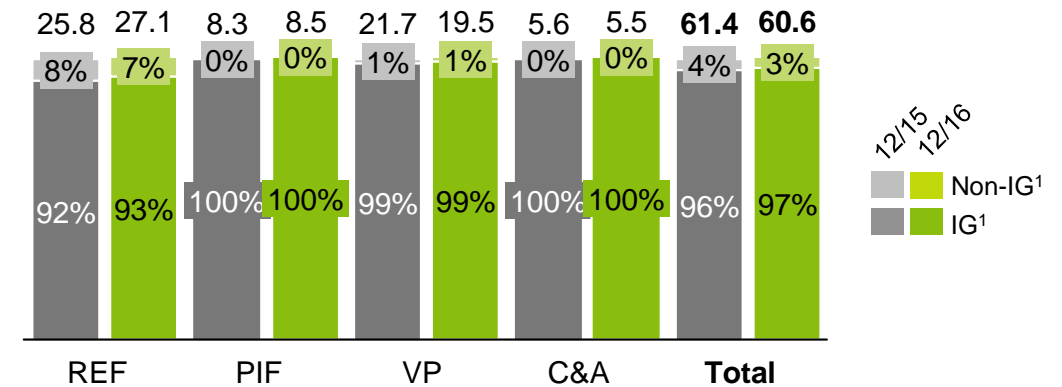
### Basel III: RWA

EUR billions (IFRS)<sup>1</sup>



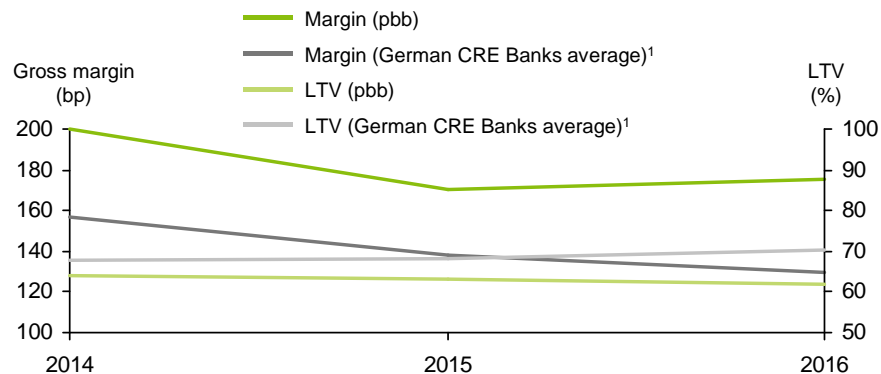
### Total portfolio: Internal ratings (EL classes)

EUR billions (EaD, Basel III)



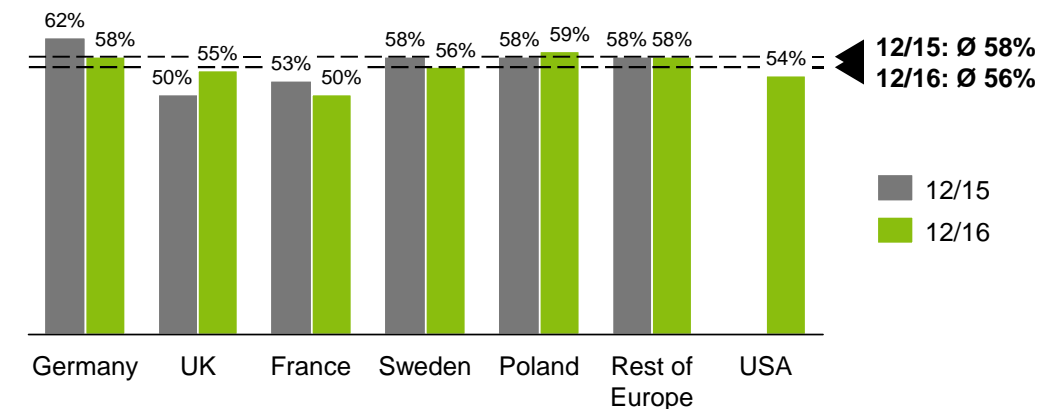
### German CRE Banks Ø new business margins and LTVs

IRE/BS Research Study 'German Debt Project 2016'



### REF Portfolio: Avg. weighted LTVs

% (Commitments)<sup>2</sup>



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

## Portfolio

### Sustained low share of problem loans – only 3mn workout loans

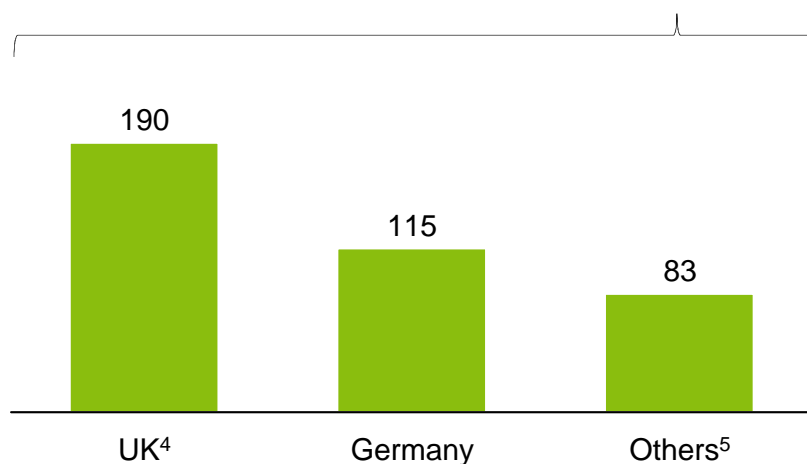
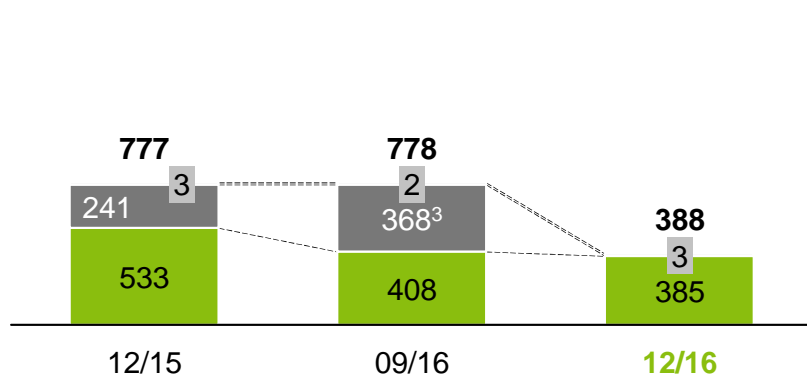


#### Total problem loans

EUR millions (EaD, Basel III)

Workout<sup>1</sup>

Restructuring<sup>2</sup> (thereof: HETA)

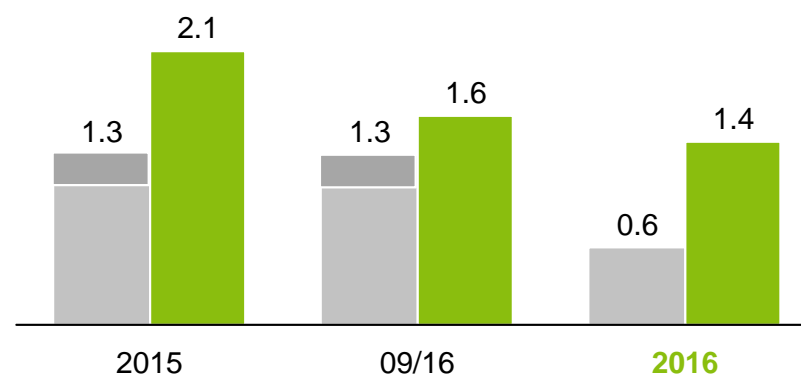


#### Problem loan ratio

% (EaD, Basel III)

Total portfolio (thereof: HETA)

Real Estate Finance



#### Key drivers:

- Sustained low share of problem loans
  - HETA bonds sold in 2016
  - Problem loans consist of REF only at year-end 2016
  - 0.6% of total portfolio

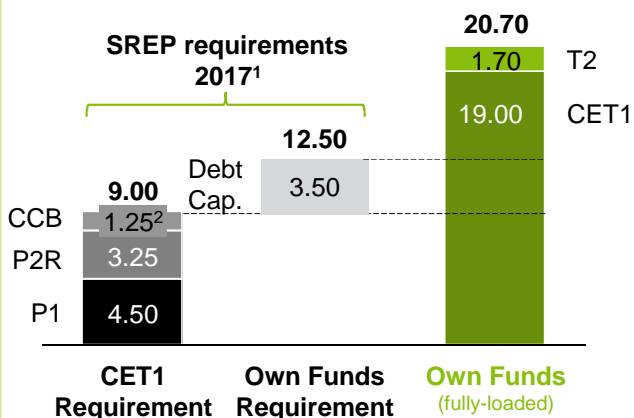
Note: Figures may not add up due to rounding 1 PD class 30: No signs that the deal will recover soon, compulsory measures necessary 2 PD class 28+29: Payments more than 90 days overdue or criteria acc. to respective policy apply 3 Write-back of HETA exposure recognised in Q3/16 4 UK-3 'technically' shown as problem loan – properties sold, but synthetic securitisation has not yet allocated loss 5 Incl. Spain, Hungary, Italy, France

# Legacy Hybrid Tier 1 Call and Tier 2 Replacement

## Tier 2 to replenish ICAAP Gone Concern and further strengthen Own Funds

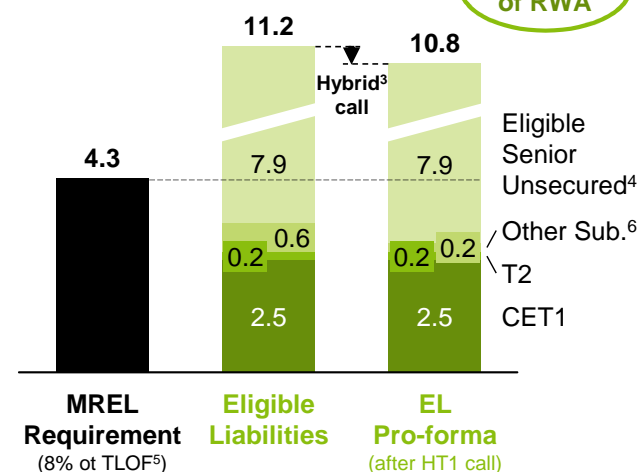
### Capital ratios

%, 31/12/16



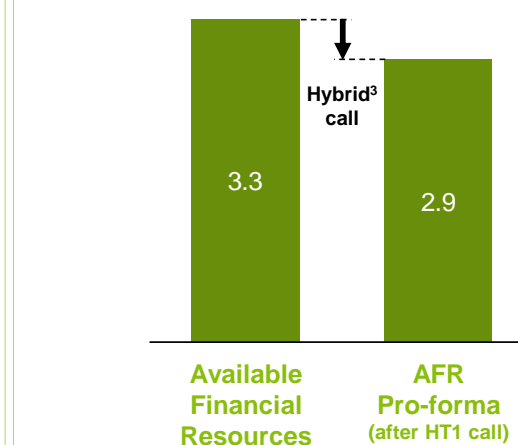
### MREL eligible items<sup>4</sup>

EUR billions, 31/12/16



### ICAAP (Gone Concern)<sup>7,8</sup>

EUR billions, 31/12/16



### Status



### Impact

Hybrid<sup>3</sup> called effective 14 Jun  
New T2 issued



### Back-ground & Drivers

- Regulatory RWA may grow (ECB TRIM, Basel 4), while pbb is not constrained by the Leverage Ratio
- Business growth and cyclical risk buffer
- Rating
- Dividend and capital strategy



Hybrid<sup>3</sup> call  
New T2



- Pillar 2 requirement for bail-in capital and eligible senior to protect deposits and operating liabilities
- Own Funds & Other Sub<sup>6</sup> almost cover the prospective MREL requirement. Given German eligible senior our coverage of MREL is > 80%.
- Rating (e.g. S&P ALAC)



Hybrid<sup>3</sup> call  
New T2



- Pillar 2 requirement for sufficient loss absorbing capacity (AFR) to fully protect all senior creditors in extreme stress (99.91% conf. level)<sup>8</sup>
- pbb require a substantial buffer of excess AFR to always comfortably cover ECap requirement
- Dividend and capital strategy

1 Phase-in, no systemic buffer applies to pbb, excl. countercyclical buffer 2 Phase-in 3 €350 mn Legacy Hybrid Tier 1 ISIN: XS0303478118 4 MREL requirement and eligible liabilities not yet defined, reflected as maximum of three calculation approaches currently being discussed; actual figures may vary significantly 5 Total liabilities and own funds 6 Subordinated instruments not eligible for own funds 7 See Disclosure Report as of 31/12/2016 8 Under the Internal Capital Adequacy Assessment Process (ICAAP) an institution needs to undertake a regular assessment of the amounts, types and distribution of capital that it considers adequate to cover the level and nature of the risks to which it is or might be exposed. This assessment in general needs to cover all sources of risk to the firm's ability to meet its CET1 SREP requirements (Going-Concern approach) or protect senior unsecured liabilities (Gone-Concern approach) on an ongoing basis in times of stress. pbb basically uses internal models to generate loss distributions for all material risk types. The resulting capital demand (Economic Capital) that is required to cover losses at the chosen statistical confidence level is compared to Free Capital in Going Concern Approach and Available Financial Resources (AFR) in the Gone-Concern approach. AFR consists of Own Funds plus Other Subordinated.

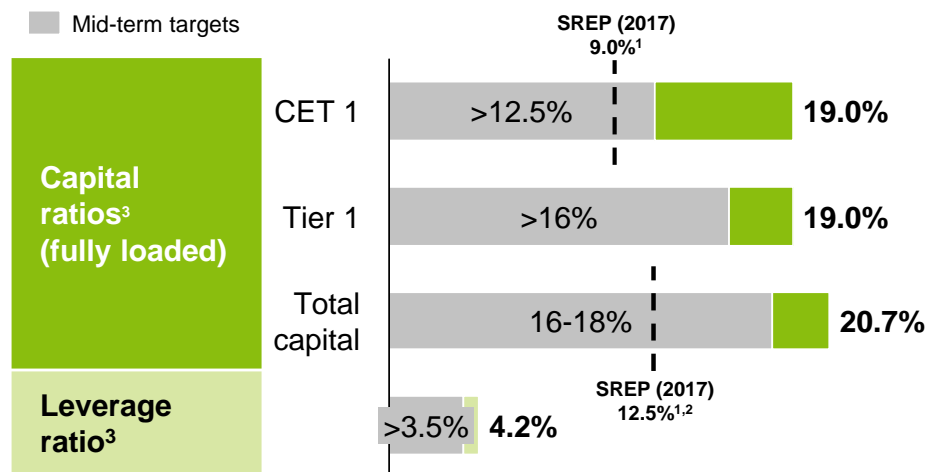
# Capital Targets and Issuance Plans

## pbb comfortably exceeds targets and requirements



### Current vs Target Ratios

%, 31/12/16



- pbb capital target ratios aim at comfortable capital buffers vs. regulatory requirements (among other they provide cushion for possible RWA growth)
- pbb significantly exceeds those mid-term capital target ratios and of course the underlying regulatory Pillar 1 requirements
  - Where pbb is not CET1 or Leverage constrained AT1 is clearly not required currently
  - Tier 2 therefore is the most cost effective capital instrument to manage Pillar 1 and may provide cushion beyond the 2% bucket
- pbb also comfortably exceeds Pillar 2 requirements where Tier 2 is again the most cost effective instrument to bolster ICAAP Gone Concern and also supports senior bond holders within MREL

### Rationale for Tier 2 Issuance

- Tier 2 issuance is part of a holistic and conservative approach to manage our capital and liability structure. After the recent call of our €350 mn Hybrid Tier 1, Tier 2 replenishes loss absorption capacity to the benefit of senior bond holders.
- Conversely, in regulatory terms Tier 2 issuance seeks to
  - ensure sufficient buffers against potentially volatile ECap requirements in ICAAP
  - maintain sufficient cushion for RWA challenges and expected changes to ECB's ICAAP view
  - replace maturing T2 (2017: €35 mn, 2018: €191 mn, falling out of ICAAP 12M before maturity)
  - take advantage of favourable market conditions
  - lay the foundations to optimize its capital structure in the medium term

**Moderate debt capital requirements**

Note: Figures may not add up due to rounding

<sup>1</sup> Incl. capital conservation buffer, excl. countercyclical buffer    <sup>2</sup> Overall Capital Requirement (OCR)    <sup>3</sup> %-figures for Capital ratios based on RWA, for Leverage ratio based on leverage exposure

## Summary & Outlook

### Solid start into 2017 – strategic initiatives underway



- ➡ **pbb well on track** despite remaining headwinds – solid start into 2017 with good operating and financial performance
- ➡ **Full-year guidance 2017** unchanged
- ➡ **Strategic initiatives** underway to strengthen market position and support profitability
  - Expand US business
  - Expand core business in existing markets with regards to clients and products
  - Develop digitalisation strategies
- ➡ **Holistic Management of Capital and Funding**
  - Contemplated Tier 2 Benchmark
  - pbb exceeds all regulatory Pillar 1 and Pillar 2 requirements

## Contact details



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# Appendix

## Ownership

Successfully reprivatized and floated in July 2015



### pbb Share Performance in EUR



- Successful IPO in difficult market environment – biggest IPO 2015 in Germany at that time
- Shares were placed at EUR 10.75 per share – total gross volume of placement at approx. EUR 1.2 billion
- MDAX<sup>1</sup> listed since September 2015
- HRE has undertaken, via a lock-up-agreement and subject to certain contractual exceptions, to hold 20 % of the share capital until mid-July 2017

Source: Bloomberg, XETRA daily closing prices

<sup>1</sup> MDAX comprises the 50 largest companies in the Prime Standard Segment of the Frankfurt Stock Exchange that rank below the DAX shares in terms of market capitalisation and trading volume

## Key figures

pbb Group



Income statement (EUR millions)	2014	2015	2016
Net interest income	421	426	404
Net fee and commission income	1	14	8
Net trading income	-30	15	-6
Net income from financial investments	-77	-32	125
Net income from hedging relationships	-3	11	6
Net other operating income/expenses	14	-34	-29
<b>Operating income</b>	<b>326</b>	<b>400</b>	<b>508</b>
Loan-loss provisions	-21	1	-1
General and administrative expenses	-251	-207	-198
Net miscellaneous income/expenses	-	1	-8
<b>Profit or loss before tax</b>	<b>54</b>	<b>195</b>	<b>301</b>
Income taxes	-50	35	-104
<b>Net income/loss</b>	<b>4</b>	<b>230</b>	<b>197</b>
<b>Balance sheet (EUR billions)</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16</b>
Total assets	74.9 <sup>2</sup>	66.8	62.6
Equity (excl. revaluation reserve)	3.4	2.7	2.8
<i>thereof: Silent participation<sup>1</sup></i>	1.0	-	-
<b>Regulatory capital ratios<sup>3</sup></b>	<b>12/14</b>	<b>12/15</b>	<b>12/16</b>
RWA (EUR bn)	15.2 <sup>4</sup>	13.4	13.1
CET 1 ratio – phase in (%) <sup>5</sup>	22.2 <sup>4</sup>	18.9	19.5
<b>Personnel</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16</b>
Employees (FTE)	808	785	756

Note: Annual results 2013-2016 audited    1 EUR 1 bn FMS silent participation redeemed on 6 July 2015    2 Revised due to IAS 8.14 et seq    3 Basel III transitional rules    4 Retrospectively adjusted    5 incl. full-year result, excl. interim result, post proposed dividend

## Ratings

Mandated ratings as of 12 June 2017



Bank ratings	S&P	DBRS	
<b>Long-term</b>	<b>A-</b>	<b>BBB</b>	
Outlook/Trend	Negative	Stable	
Short-term	A-2	R-2 (high)	
Stand-alone rating <sup>1</sup>	bbb	BBB	
<b>Long Term Debt Ratings</b>			
"Preferred" Senior Unsecured Debt <sup>2</sup>	A-	BBB	
"Non-preferred" Senior Unsecured Debt <sup>3</sup>	BBB-	BBB	
Subordinated Debt	BB+	BB (high) / Stable	

Pfandbrief ratings			Moody's
Public Sector Pfandbrief			Aa1
Mortgage Pfandbrief			Aa1

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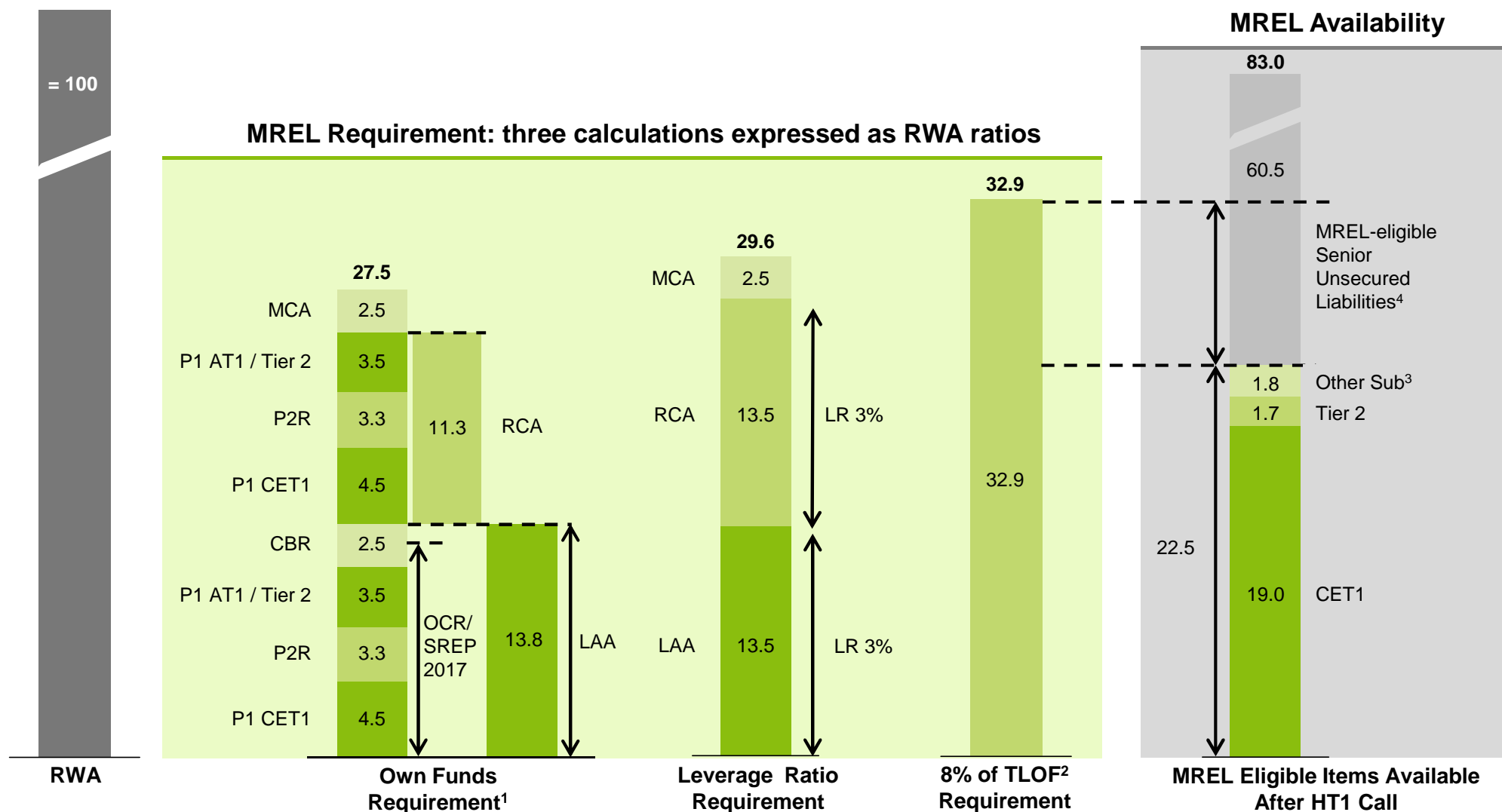
Note: The above list does not include all ratings

1 S&P: Stand-alone credit profile; DBRS: Intrinsic Assessment    2 S&P: "Senior Unsecured Debt"; DBRS: "Senior Unsecured Debt"    3 S&P: "Senior Subordinated Debt"; DBRS: "Senior Unsecured Debt"

# Minimum Requirement for Own Funds and Eligible Liabilities – pbb Group

**22.5 % of MREL RWA met by Debt Capital, including Senior above 80% of MREL RWA**

(in % of RWA, fully-loaded as of 31<sup>st</sup> December 2016, pro-forma after HT1 Call)



P1 = Pillar 1 Requirement

P2R = Total Pillar 2 Requirement

CBR = Combined Buffer Requirement excl. countercyclical buffer

N.B.: All ratios are expressed in RWA equivalents. Leverage Ratio and Own Funds Ratio computations may vary subject to RWA density among other factors. 1 Own Funds Requirement subject to Basel I Floor 2 Still subject to discussion 3 Subordinated instruments not eligible as own funds (residual maturity >= 1 year) after HT1 call 4 Residual maturity >= 1 year

LAA = Loss Absorption Amount

RCA = Recapitalization Amount

MCA = Market Confidence Add-on

LR = Leverage Ratio

OCR = Overall Capital Requirement

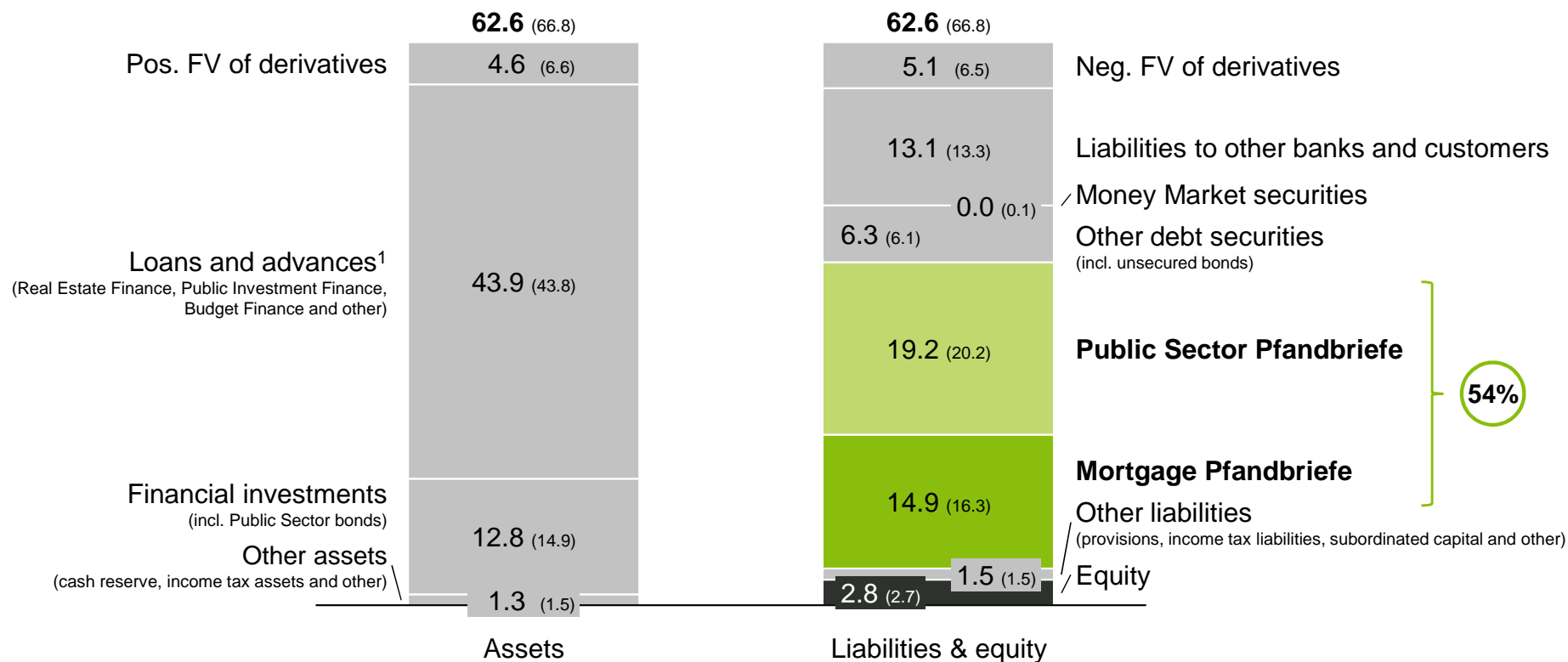
TLOF = Total Liabilities and Own Funds

## Balance sheet

Specialist lender with attractive German Pfandbrief as major funding instrument



**Balance sheet: 31/12/2016** (31/12/2015)  
IFRS, EUR billions



Note: Figures may not add up due to rounding 1 Incl. allowances for losses on loans and advances

# Funding

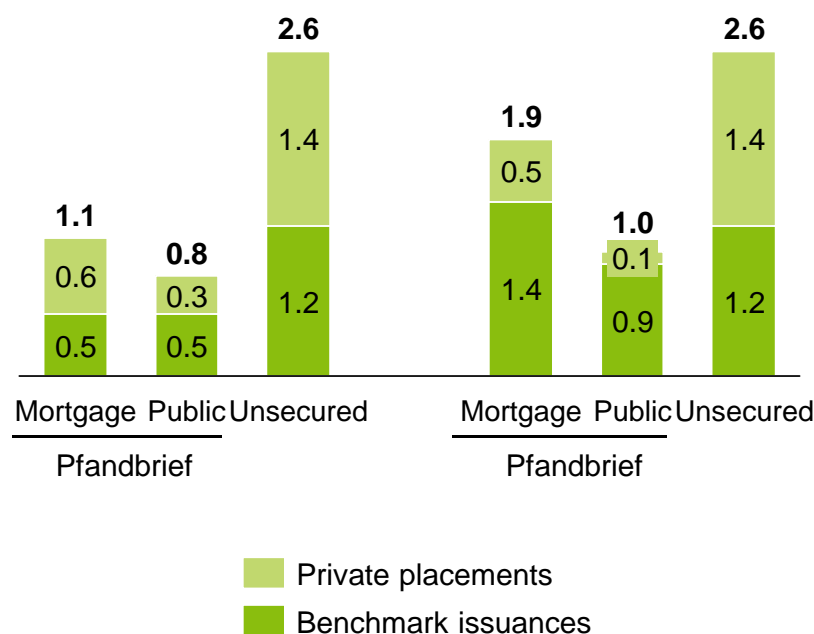
## Diverse funding base through Pfandbriefe, senior unsecured and retail deposits



### New long-term funding

EUR billions<sup>1</sup>

	2015: EUR 4.5 bn			2016: EUR 5.6 bn <sup>3</sup>		
<b>Spread</b> (Ø, bp) <sup>2</sup>	5	11	94	22	28	111
<b>Tenor</b> (Ø, yrs)	15.7	5.5	4.2	9.8	11.8	6.5



### Pfandbriefe

- Four public Benchmark issuances in 2016
  - Focus on currency matched funding: USD 500 mn Public Pfandbrief and GBP 125 mn Mortgage Pfandbrief
- Mortgage Pfandbrief Benchmark (GBP 250 mn; 3y) issued in January and (EUR 500 mn; at MS -6bp) issued in February 2017

### Senior Unsecured

- Two EUR Benchmarks and strong private placements in 2016
- First CHF unsecured Benchmark since 2009 (CHF 100mn, 5y, MS + 80bp – now trading at +65bp)
  - Strong secondary performance with tightening of 40-50bp in 2016
  - pbb cautiously entered Tier 2 private placement market
- In January 2017, Benchmark (EUR 500 mn; 4y) issued at MS +90bp

### pbb direkt

- Total volume increased y-o-y by EUR 0.8 bn to EUR 3.4 bn; average maturity at 3.5 years<sup>4</sup> (09/16: 3.4 years; 12/15: 3.5 years)

### Funding structure and liquidity

- ALM profile and liquidity position remain comfortable (NSFR >100 %; LCR >150 %)

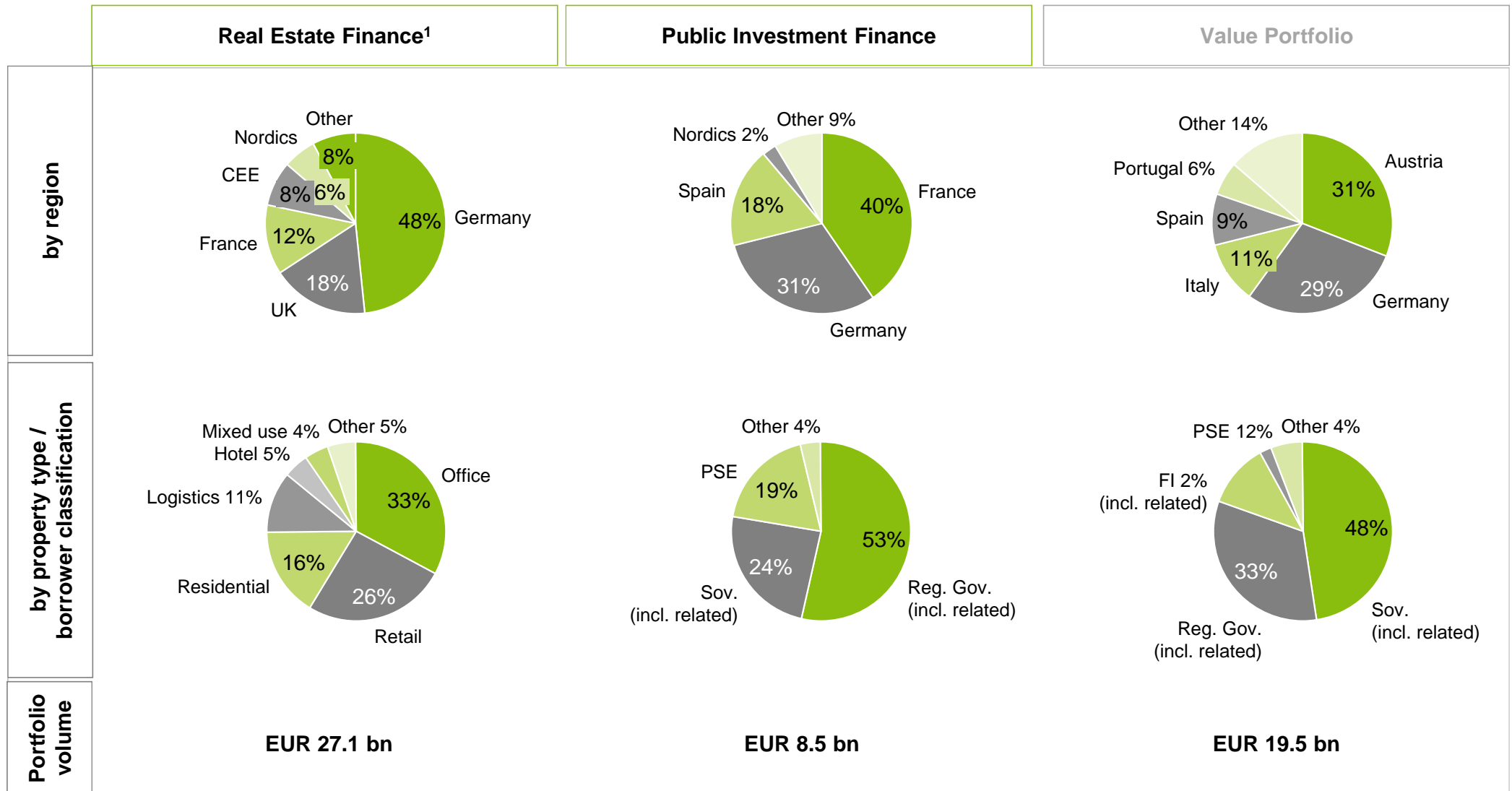
Note: Figures may not add up due to rounding    1 Excl. money market and deposit business    2 vs. 3M Euribor    3 Incl. Tier2 issuances    4 Initial weighted average maturity

# Portfolio

Stable and well diversified portfolio with continued focus on European markets, particularly on Germany



31/12/2016 (EaD, Basel III)



Note: Figures may not add up due to rounding 1 Excl. intra-group exposure

## Strategic initiatives

### Strategic initiatives underway to strengthen market position and support profitability



#### 1 Expand US business

- US market entered in Q3/16 – focused business approach with strict guidelines
- So far, total new business of EUR 0.4 bn closed
- Further business expansion envisaged
- Establish local presence – application process with US authorities and organisational process for representative office in New York underway

#### 2 Expand core business in existing markets

##### High Net Worth Individuals

- Establish partnerships with asset managers with access to this client group but not the in-depths expertise in commercial real estate financing
- Predominantly aims at first class properties and locations

##### Low Leverage Lending

- Low LTV business on the basis of leaner processes and favourable refinancing conditions
- Expand commercial residential client base

##### Stretched Senior

- Higher LTV business, based on high financial strength of borrower and accelerated amortisation
- Strict limitations with regard to creditworthiness, duration and repayment

##### ECA business

- Expand ECA business through secondary market business

#### 3 Develop digitalisation strategies

- Establish an electronic platform which acts as market place for borrowers and lenders in public financing
- Allows (indirectly) to participate in business which is currently out of reach for risk/return reasons
- Explore further potential, such as REF client interface, credit processing and document management systems