

pbb shows continued good performance
– PBT of EUR 56 mn in Q2/17

Results Q2/H1 2017

Media Briefing Call

Andreas Arndt, CEO/CFO
Unterschleissheim, 14 August 2017

Highlights

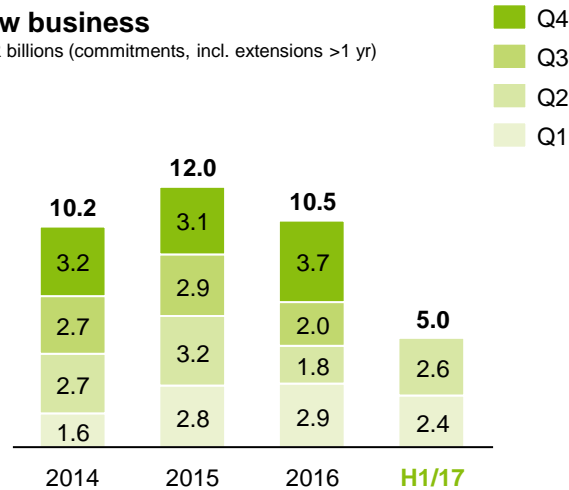
Operating and financial overview



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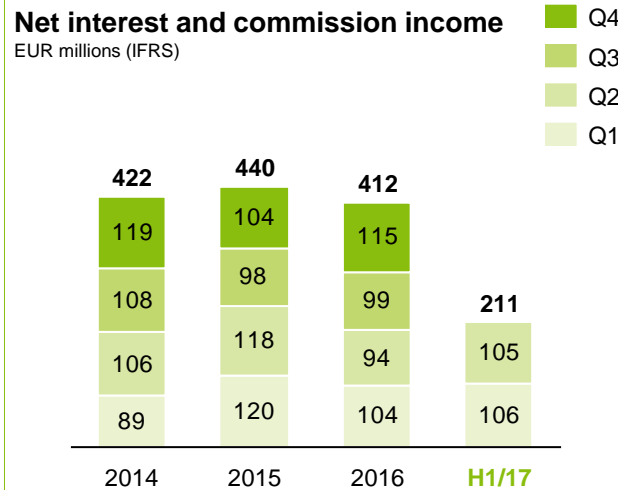
New business

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



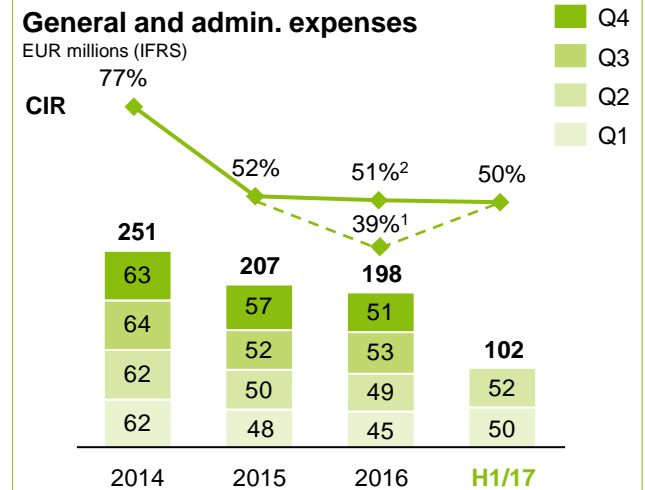
Net interest and commission income

EUR millions (IFRS)



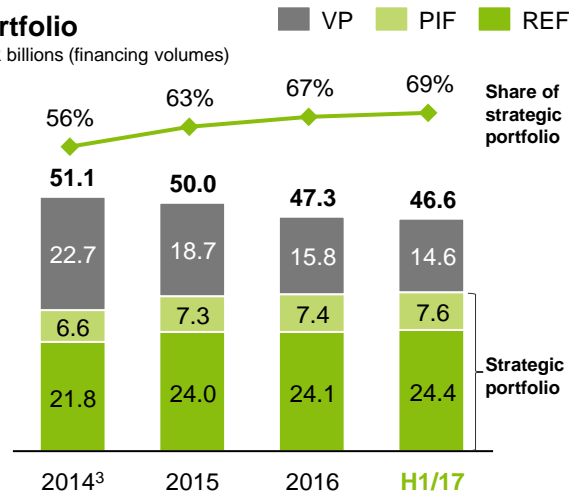
General and admin. expenses

EUR millions (IFRS)



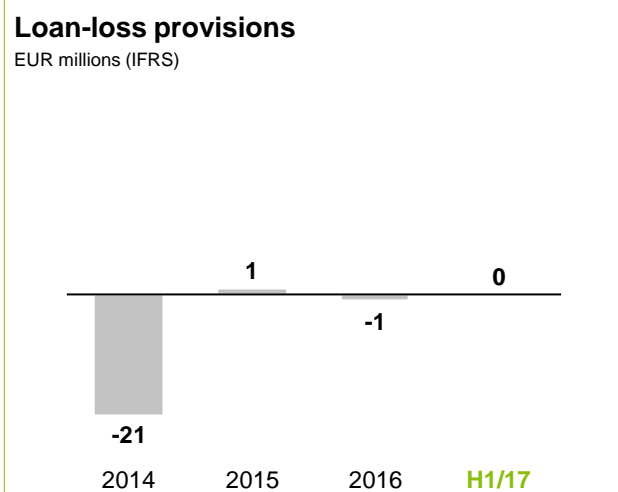
Portfolio

EUR billions (financing volumes)



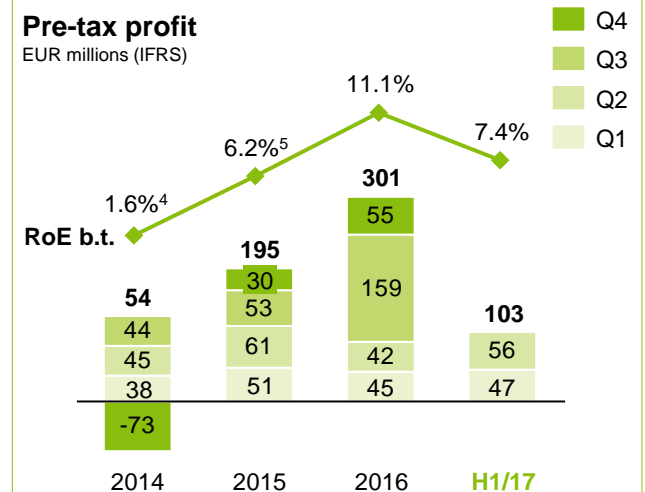
Loan-loss provisions

EUR millions (IFRS)



Pre-tax profit

EUR millions (IFRS)



Note: Figures may not add up due to rounding. 1 Reported incl. extraordinary HETA-gain of Sonderfonds Finanzmarktstabilisierung (FMS). 2 adjusted for HETA-effect. 3 Restated; figures retrospectively adjusted for transfer of Italian PIF portfolio into VP (as of 01/01/15). 4 Incl. EUR 1 bn silent participation of Sonderfonds Finanzmarktstabilisierung (FMS). 5 Calculation based on average equity; EUR 1 bn silent participation of Sonderfonds Finanzmarktstabilisierung (FMS) included until redemption in July 2015.

Income statement

Underlying NII with positive development over the last quarters, benefiting from relatively stable margin levels and reduced funding costs

Income from lending business

EUR millions

	Q2/16	Q2/17	H1/16	H1/17
Net interest income	93	103	195	206
<i>thereof: Prepayment fees</i>	3	8	14	16
<i>One-off effects</i>	6	-1	11	-2
Net fee and commission income	1	2	3	5
Total	94	105	198	211

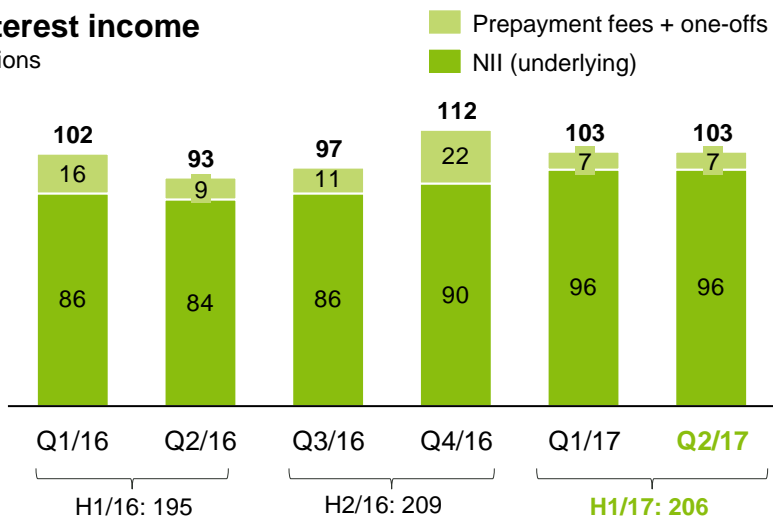
Key drivers Q2/H1 2017:

- NII up y-o-y, less supported by prepayment fees and positive one-off effects but benefiting from stable underlying NII
 - Avg. strategic portfolio at EUR 31.8 bn in H1/17 vs. EUR 31.3 bn in H1/16
 - Total average portfolio margin slightly up y-o-y
 - Refinancing costs down – maturities of liabilities with higher costs vs. lower new funding costs

- NII continues to be influenced by following major base effects:
 - Value Portfolio run-down
 - Funding surplus due to seasonally strong Q1 funding activities
 - Low returns from investments of equity/liquidity book

Net interest income

EUR millions



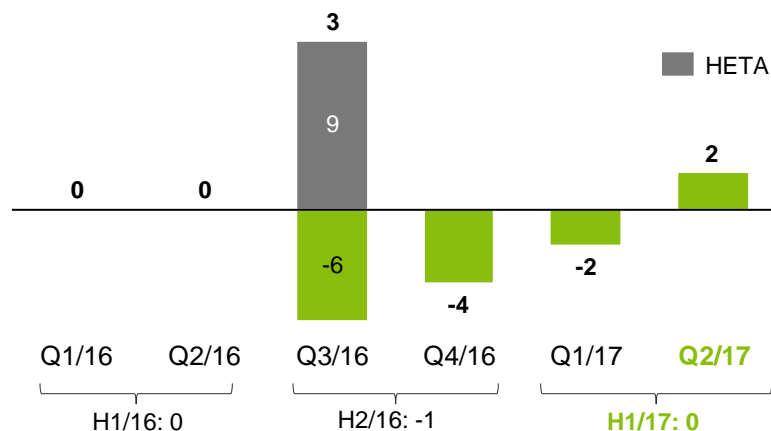
Income statement

LLPs stay low, benefiting from portfolio quality and remaining supportive market environment

Loan-loss provisions

EUR millions

	Q2/16	Q2/17	H1/16	H1/17
Specific allowances	-2	-	-1	-4
Additions	-3	-1	-3	-5
Releases	1	1	2	1
Portfolio-based allowances	2	2	-	4
Other allowances	-	-	1	
Recoveries from write-offs	-	-	-	-
Total	-	2	-	-



Key drivers Q2/H1 2017:

- (Net) release of EUR 2 mn portfolio-based LLPs in Q2/17, but no new (net) additions to specific LLPs – total LLPs in H1/17 at 'zero'
- Coverage ratio¹ up to 29% (12/16: 26%), benefiting from decrease in NPLs

¹ "SLLPs" in relation to "Book value of receivables with SLLPs"

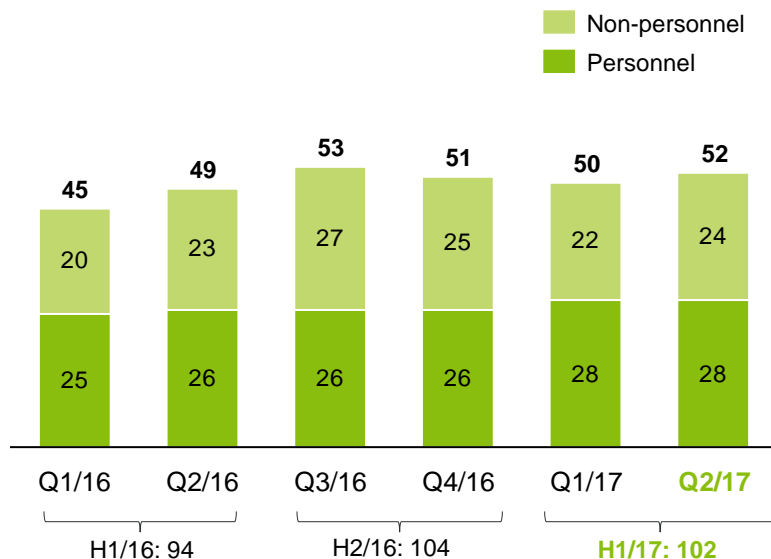
Income statement

Operating costs determined by regulatory requirements and project investments
– further increase expected from H2/17

General and administrative expenses

EUR millions

	Q2/16	Q2/17	H1/16	H1/17
General admin. expenses	-49	-52	-94	-102
<i>Personnel</i>	-26	-28	-51	-56
<i>Non-personnel</i>	-23	-24	-43	-46
<i>CIR (%)</i>	53.8	49.5	51.9	50.2



Key drivers Q2/H1 2017:

- GAE up but in line with expectation
 - Personnel expenses: Last year benefited from releases of provisions made in prior years – no such effect in 2017
 - Non-personnel expenses include project related costs esp. for regulatory projects

- All in all, operating costs tightly managed
 - Headcount: 741 FTE (03/17: 739 FTE; 12/16: 756 FTE) below year-end expectation
 - However, project costs expected to increasingly weigh on overall cost level from H2/17
 - Regulatory costs
 - Investments in strategic initiatives

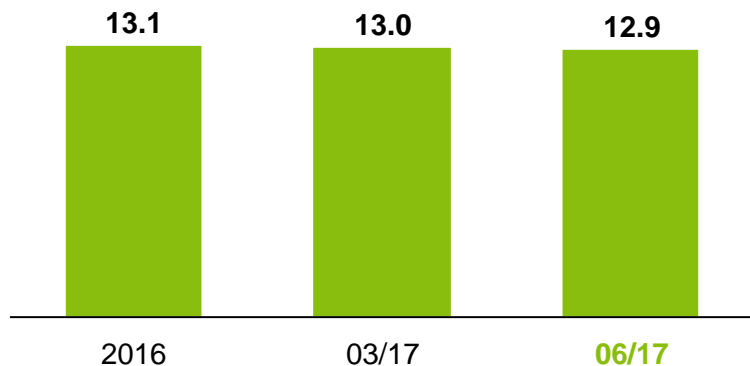
Capitalisation

Capitalisation remains strong, providing buffer for regulatory changes to come – own funds ratio up due to T2 issuances



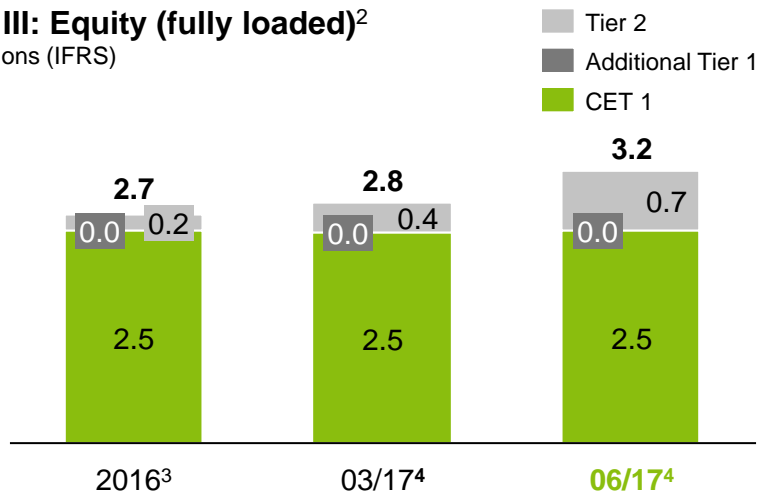
Basel III: RWA

EUR billions (IFRS)¹



Basel III: Equity (fully loaded)²

EUR billions (IFRS)



Basel III: Capital ratios (fully loaded)

% (IFRS)

in %	12/16 ³	03/17 ⁴	06/17 ⁴	Mid-term targets
CET 1	19.0	19.2	19.4	>12.5
Tier 1	19.0	19.2	19.4	>16
Own funds	20.7	21.9	24.8	16-18
Leverage ratio	4.2	4.3	4.3	>3.5

Key drivers Q2/H1 2017:

- CET1 ratio slightly up due to further reduced RWA; own funds ratio strongly up due to new T2 issuances
- pbb aims at capital buffers to provide cushion for RWA challenges business growth and cyclical risks
 - ECB model review expected to be completed in H2/17
 - ECB 'TRIM' and Basel IV pending

SREP requirements⁵:

- CET1 ratio: 9.0% (requirement 2017); 10.25% (fully-loaded)
- Own funds ratio: 12.5% (requirement 2017); 13.75% (fully-loaded)

Note: Figures may not add up due to rounding 1 No transitional rules to be applied 2 Simulation based on full implementation of CRR; actual figures may vary significantly from simulation 3 Incl. full-year result, post proposed dividend 4 Excl. interim result 5 Incl. capital conservation buffer, excl. countercyclical buffer

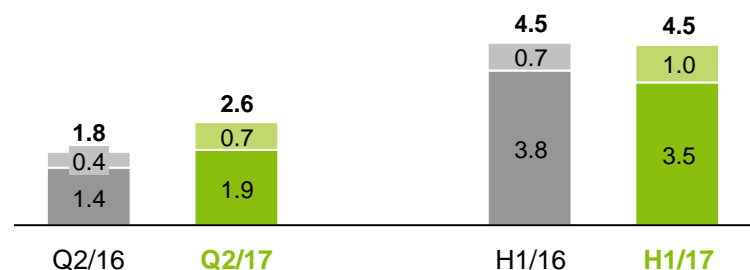
Segment reporting: Real Estate Finance (REF)

New business on solid level – US with 11% share in new business

New business

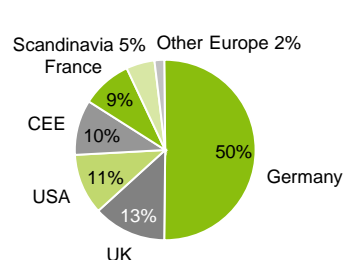
EUR billions (commitments, incl. extensions >1 yr)

Extensions >1 year
New commitments



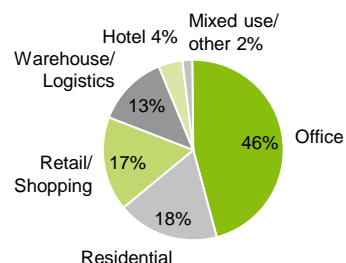
Regions

H1/17: EUR 4.5 bn



Property types

H1/17 EUR 4.5 bn



New business	H1/16	2016	H1/17
Total volume (EUR bn)	4.5	9.5	4.5
<i>thereof: Extensions >1 year</i>	0.7	1.6	1.0
No. of deals	84	189	105
Average maturity (years) ¹	~5.2	~5.1	~5.1
Average LTV (%) ²	63	62	60
Average gross margin (bp)	~170	>175	>165

Income statement (IFRS, EUR mn)	Q2/16	Q2/17	H1/16	H1/17
Operating income	74	86	142	159
<i>thereof: Net interest income</i>	75	84	152	167
<i>Net commission income</i>	1	2	3	5
<i>Other revenues</i>	-2	-	-13	-13
Loan-loss provisions	-	2	-	-1
General administrative expenses	-37	-41	-73	-81
Pre-tax profit	37	48	69	79
Key indicators	Q2/16	Q2/17	H1/16	H1/17
CIR (%)	50.0	47.7	51.4	50.9
RoE before tax (%)	28.0	32.7	26.1	26.5
Equity (EUR bn, excl. revaluation reserve)	0.5	0.6	0.5	0.6
RWA (EUR bn)	6.3	6.5	6.3	6.5
Financing volume (EUR bn)	24.0	24.4	24.0	24.4

Key drivers H1/17:

- New business volume on solid level
 - Avg. gross margin in Q2/17 recovered to quarterly mid-term average; Q1/17 affected by high German share (Q2/17: ~170 bp; Q1/17: >160bp)
 - Continued cautious growth of US business (11% share)
 - Avg. LTV down to 60%
- Financing volume slightly up y-o-y and q-o-q (EUR 24.4 bn; 03/17: EUR 24.1 bn; 06/16: EUR 24.0 bn)
- Positive financial segment performance mainly driven by strong NII; operating costs up in line with expectation; LLPs remain low

Note: Figures may not add up due to rounding 1 Legal maturities 2 New commitments; avg. LTV (extensions): 57%; H1/16: 56%; 2016: 56%

Segment reporting: Public Investment Finance (PIF)

New business and financing volumes up y-o-y, mainly driven by good demand in Q1/17

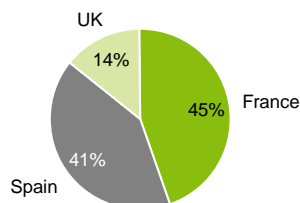
New business

EUR billions (commitments)



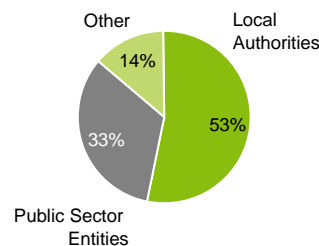
Regions

H1/17: EUR 0.5 bn



Counterparty Types

H1/17: EUR 0.5 bn



New business	H1/16	2016	H1/17
Total volume (EUR bn)	0.2	1.0	0.5
No. of deals	8	28	14
Average maturity (years) ¹	~8.2	~8.8	~9.0
Average gross margin (bp)	>90	~85	>90

Income statement (IFRS, EUR mn)	Q2/16	Q2/17	H1/16	H1/17
Operating income	9	9	18	14
<i>thereof: Net interest income</i>	9	9	18	18
Loan-loss provisions	-	-	-	-
General administrative expenses	-7	-8	-13	-14
Pre-tax profit	2	1	5	-
Key indicators	Q2/16	Q2/17	H1/16	H1/17
CIR (%)	77.8	88.9	72.2	100.0
RoE before tax (%)	2.7	1.4	3.2	0.0
Equity (EUR bn, excl. revaluation reserve)	0.3	0.3	0.3	0.3
RWA (EUR bn)	1.4	1.4	1.4	1.4
Financing volume (EUR bn, nominal)	7.3	7.6	7.3	7.6

Key drivers H1/17:

- New business volume up y-o-y, mainly driven by good demand in Spain and UK in Q1/17
 - Ongoing standstill of ECA aircraft financing in Germany
 - Avg. gross margin stable
- Financing volume slightly down in Q2/17 (EUR -0.1 bn), but up y-o-y (EUR +0.3 bn)
- Financial segment performance influenced by allocation effects – prior year more benefited from these effects

Note: Figures may not add up due to rounding ¹ Weighted average lifetime

Portfolio

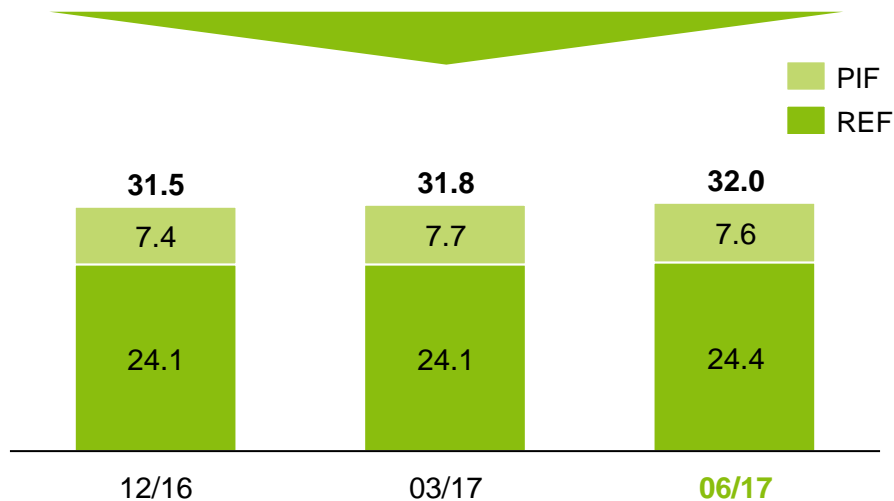
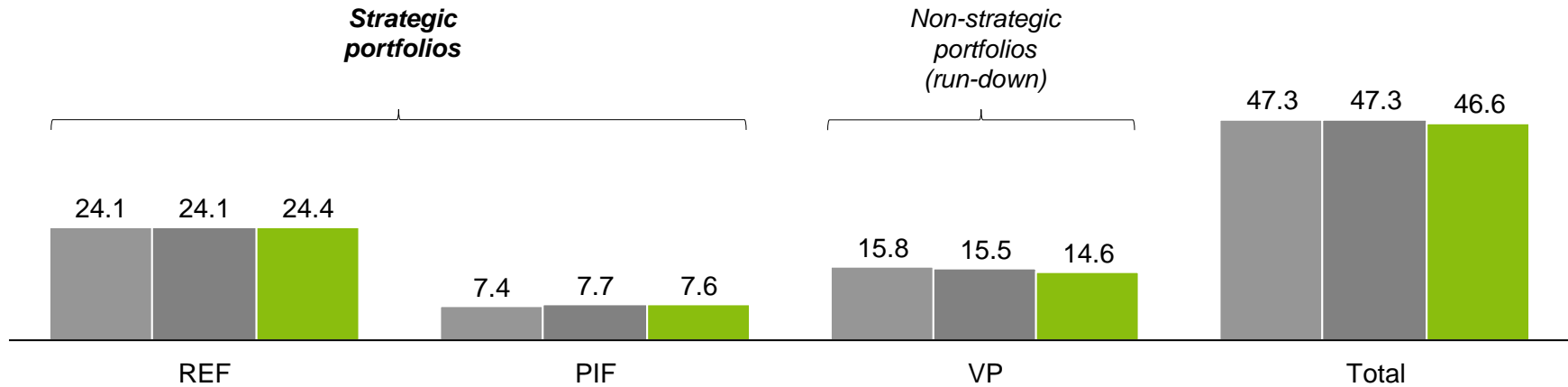
Strategic portfolio up in Q2/17



Total portfolio

EUR billions (financing volumes)

12/16 03/17 06/17



Key drivers Q2/H1 2017:

- Strategic portfolio up in Q2/17 (EUR +0.2 bn; +0.5 bn ytd), based on solid new business volume in REF
- Run-down of non-strategic Value Portfolio continued in line with strategy

Note: Figures may not add up due to rounding

Funding

Focus on currency matched Pfandbrief funding – inaugural Tier 2 benchmark issued in June



New long-term funding

EUR billions¹

H1/16: EUR 3.5 bn

H1/17: EUR 4.0 bn²

Spread

(Ø, bp)³

22 34 127

22 11 80

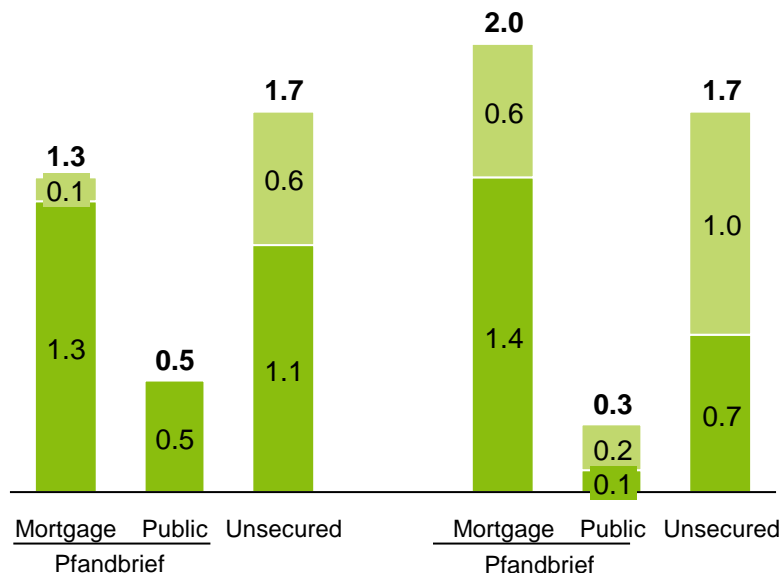
Tenor

(Ø, yrs)⁴

7.7 19 5.7

6.2 2.8 6.3

- Private placements
- Benchmark issuances



Pfandbriefe

- Focus on currency matched funding:
 - Mortgage Pfandbriefe: GBP 300 mn, SEK 2.6bn; first USD Mortgage Pfandbrief benchmark USD 600 mn placed in April
 - Public Pfandbriefe: USD 100 mn

Senior Unsecured

- EUR 500 mn + EUR 150 mn benchmarks issued in January and February
- In addition, strong private placements
- EUR 120 mn senior preferred issued (Structured Notes rated A-)

AT1/Tier 2

- EUR 350 mn Hybrid Tier 1 redeemed in June
- pbb restarted issuance of Tier 2 in 2016; new issuance volume of EUR 0.5 bn in H1/17
- In June, inaugural EUR 300 mn T2 benchmark issued

pbb direkt

- Total volume stable at EUR 3.4 bn (12/16: EUR 3.4 bn); average maturity⁵ at 3.7 years (12/16: 3.4 yrs)

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 Excl. Tier 2 issuances 3vs. 3M Euribor 4 Initial weighted average maturity 5 Initial weighted average maturity of term deposits

Summary & Outlook

pbb remains well on track – PBT for the full-year now expected at upper end or slightly above guidance of EUR 150-170 mn



- ➔ **pbb remains well on track** despite remaining headwinds – Q2/17 with good operating and financial performance
 - **New business** up q-o-q while overall approach remains cautious and markets stay highly competitive, resulting in slight increase of **strategic portfolio**
 - Solid **earnings development in lending business**, reflecting remarkably resilient net portfolio margin based on relatively stable gross new business margin level and reduced funding costs
 - **Operating and risk costs** in line or better than initial expectations – however, regulatory projects and strategic investments expected to increasingly weigh on overall cost level in H2/17

- ➔ **New business full-year target confirmed** at EUR 10.5-12.5 bn

- ➔ **Portfolio growth** affected by higher than expected prepayments; **full-year expectation changed from significant to moderate growth**

- ➔ PBT for the full-year now expected **at upper end or slightly above guidance** of EUR 150-170 mn

- ➔ **Major challenges** continue to be the highly competitive market environment as well as the impact from regulation, in particular on costs and risk weights

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