Full-year guidance raised after good Q3 results – PBT of EUR 51 mn in Q3/17

Results Q3/9M 2017
Media Briefing Call

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Unterschleissheim, 13 November 2017

Highlights

Operating and financial overview

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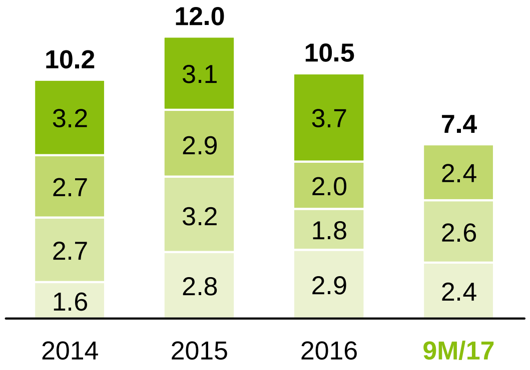
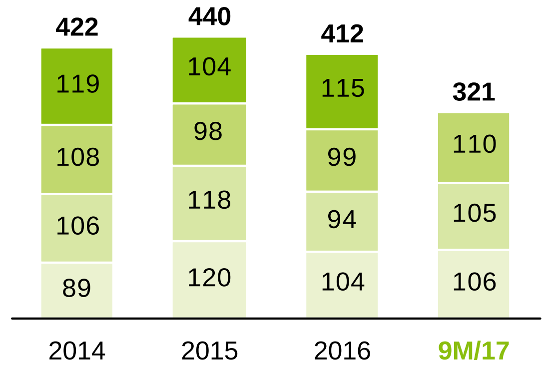
New business

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



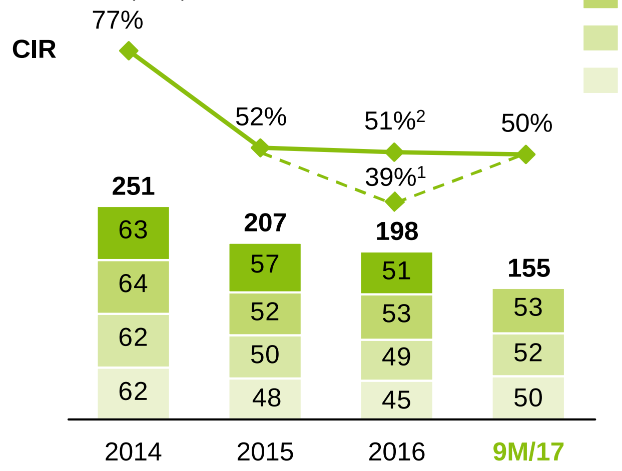
Net interest and commission income

EUR millions (IFRS)



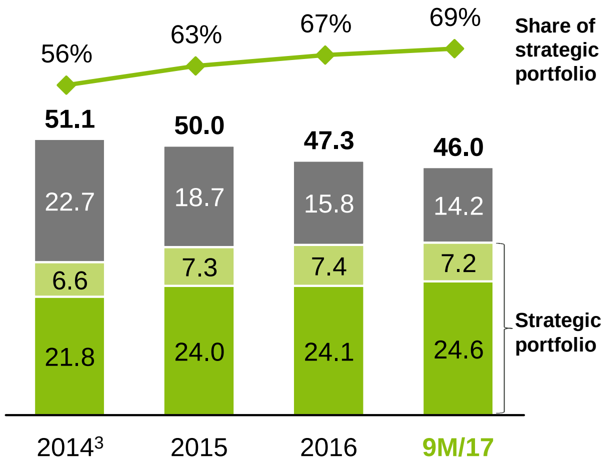
General and admin. expenses

EUR millions (IFRS)



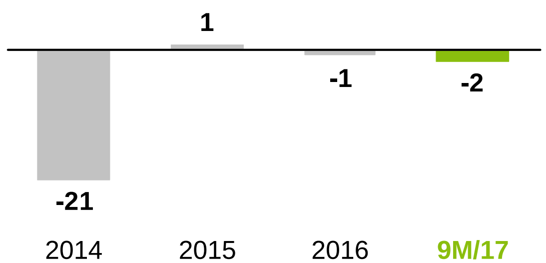
Portfolio

EUR billions (financing volumes)



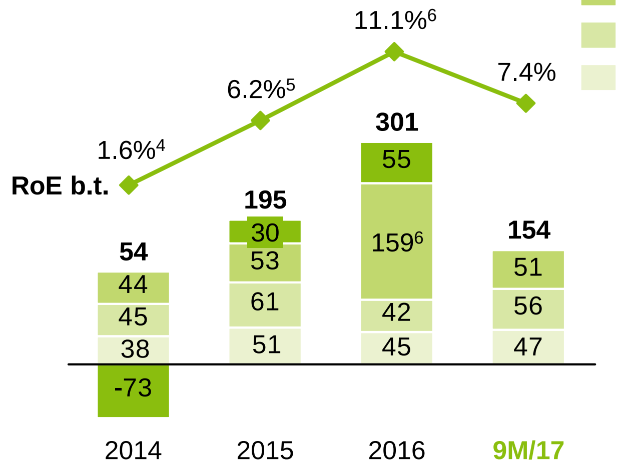
Loan-loss provisions

EUR millions (IFRS)



Pre-tax profit

EUR millions (IFRS)



Note: Figures may not add up due to rounding 1 Reported incl. extraordinary HETA-gain 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 6 Incl. EUR +132 mn extraordinary gain from value adjustments on HETA exposure

Income statement

Underlying NII with positive development over the last quarters

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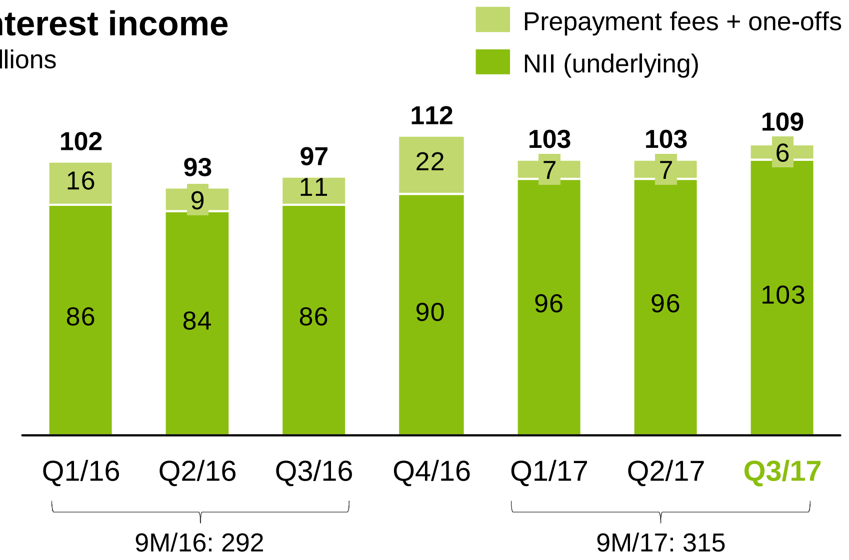
Income from lending business

EUR millions

	Q3/16	Q3/17	9M/16	9M/17	
Net interest income	97	109	292	315	
thereof: Prepayment fees	*8*	*5*	*22*	*21*	
One-off effects	*2*	*1*	*13*	*-1*	
Interest income	457	417	1,383	1,257	**-9%**
Interest expenses	-360	-308	-1,091	-942	**-14%**
Net fee and commission income	2	1	5	6	
Total	**99**	**110**	**297**	**321**	

Net interest income

EUR millions



Key drivers Q3/9M 2017:

- NII up y-o-y, less supported by positive one-off effects but benefiting from solid underlying NII
  - Avg. strategic financing volume slightly up to EUR 31.8 bn in 9M/17 (9M/16: EUR 31.3 bn)
  - Total average portfolio margin slightly up
  - Funding costs down
  - 9M/16 benefited from EUR 14 mn higher one-offs, including income from asset sales and realisation of fees
- However, NII continues to be influenced by following major base effects:
  - Value Portfolio run-down
  - Funding surplus due to stronger funding activities in H1
  - Low returns from (re)investments of equity/ liquidity book

Income statement

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

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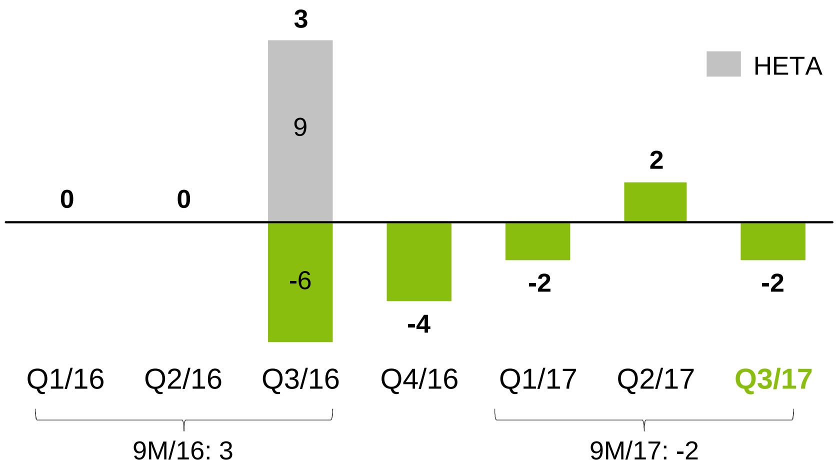
Loan-loss provisions

EUR millions

	Q3/16	Q3/17	9M/16	9M/17
Specific allowances	2	-	1	-4
Additions	*-9*	*-1*	*-11*	*-6*
Releases	*11*	*1*	*12*	*2*
Portfolio-based allowances	-2	-3	-2	1
Other allowances	-	-	1	-
Recoveries from write-offs	3	1	3	1
Total	**3**	**-2**	**3**	**-2**



Key drivers Q3/9M 2017:

- No new major single cases
- Coverage ratio[1] up to 29% (12/16: 26%), benefiting from decrease in NPLs

  Coverage ratio does not take into account additional collateral – incl. additional collateral, REF coverage ratio at ca. 100%

1 “SLLPs” in relation to “Gross book value of receivables with SLLPs”

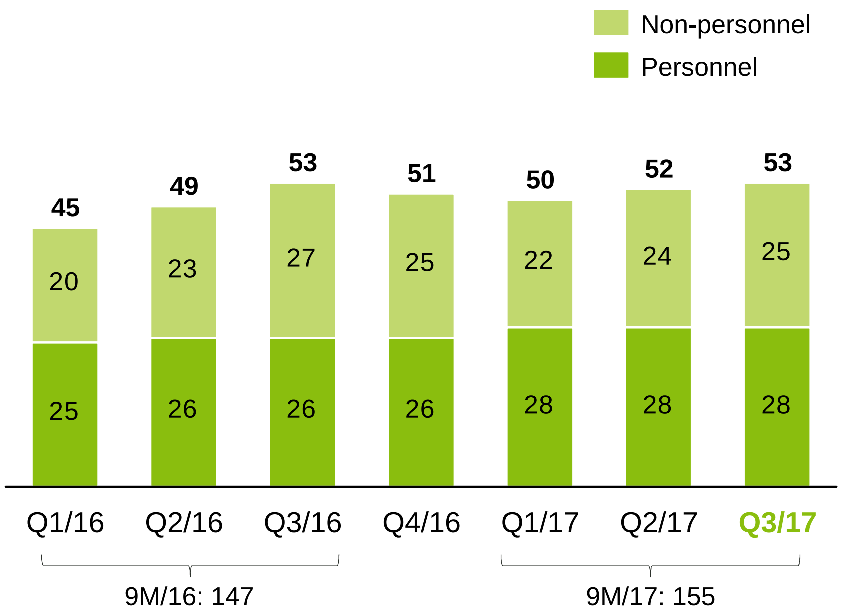
Income statement

Operating costs up in line with expectations – 2016 benefited from release of provisions; regulatory costs and strategic investments will increasingly weigh on overall cost level

General and administrative expenses

EUR millions

	Q3/16	Q3/17	9M/16	9M/17
General admin. expenses	-53	-53	-147	-155
Personnel	*-26*	*-28*	*-77*	*-84*
Non-personnel	*-27*	*-25*	*-70*	*-71*
CIR (%)[1]	*24.8*	*50.0*	*37.2*	*50.2*



Key drivers Q3/9M 2017:

- GAE up 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 costs, esp. related to regulatory requirements
- All in all, operating costs tightly managed
  - Headcount: 736 FTE (06/17: 741 FTE; 12/16: 756 FTE) below year-end expectation
  - However, project costs expected to increasingly weigh on overall cost level from Q4/17
    - Regulatory costs
    - Strategic investments

1 2016 influenced by EUR +132 mn extraordinary gain from value adjustments on HETA exposure

Capitalisation

RWA increase from ECB harmonisation of risk models in Q3/17 – capitalisation remains strong, providing buffer for further RWA challenges, cyclical risk and business growth

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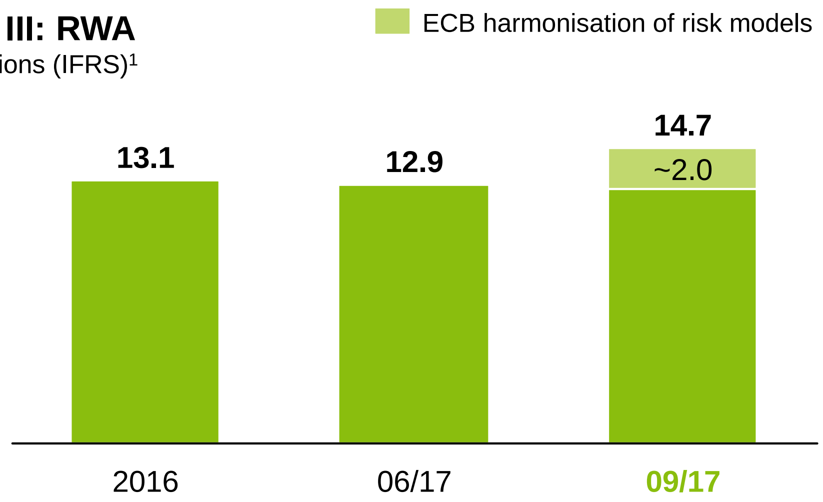
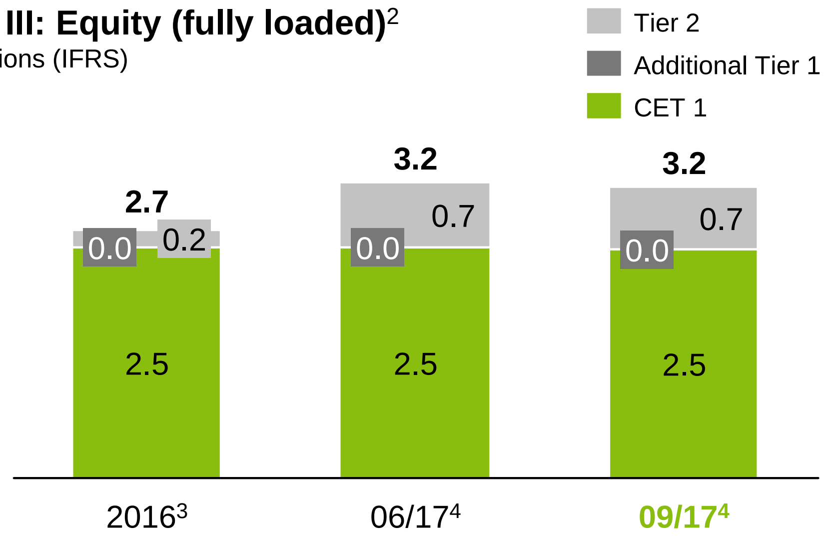
Basel III: RWA

EUR billions (IFRS)[1]



Basel III: Equity (fully loaded)[2]

EUR billions (IFRS)



Basel III: Capital ratios (fully loaded)

% (IFRS)

in %	12/16[3]	06/17[4]	09/17[5,6]	Ambition levels
CET 1	19.0	19.4	17.1	≥12.5
Tier 1	19.0	19.4	17.1	≥16
Own funds	20.7	24.8	21.8	16-18
Leverage ratio	4.2	4.3	4.5	≥3.5

Key drivers Q3/9M 2017:

- EUR ~2.0 bn EUR RWA increase from ECB harmonisation of risk models in Q3/17
  - Only REF affected
  - Higher PDs (multiplier) and LGDs (add-ons)
- pbb will retain capital buffers for further RWA challenges (Basel IV pending), cyclical risks and business growth

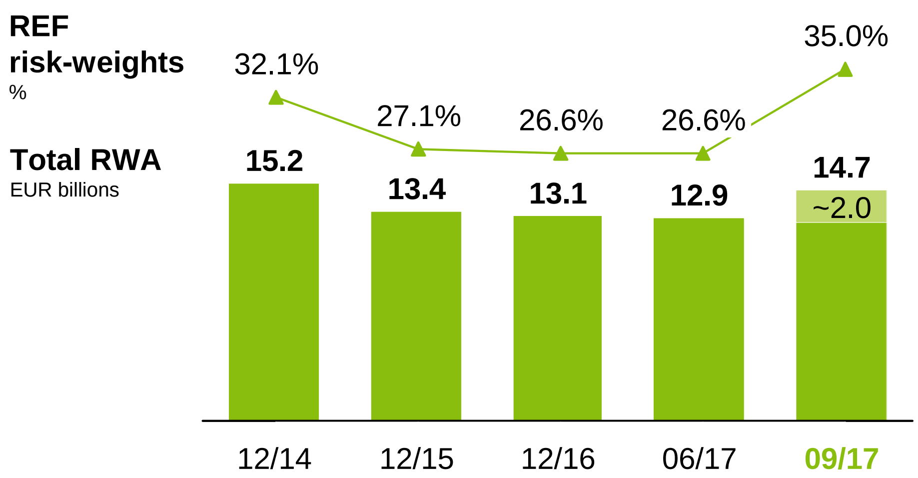
Note: Figures may not add up due to rounding 1 No transitional rules to be applied 2 Simulation based on full implementation of CRR; actual figures may vary significantly from simulation 3 Incl. full-year result, post dividend 4 Excl. interim result 5 Incl. interim result 6 Incl. EUR ~2 bn RWA increase from ECB harmonisation of risk models

Capitalisation

RWA increase from ECB harmonisation of risk models driven by recalibration of PD and LGD parameters; reduction of SREP requirements by -0.5%-pts through improvement of risk profile

ECB harmonisation of risk models

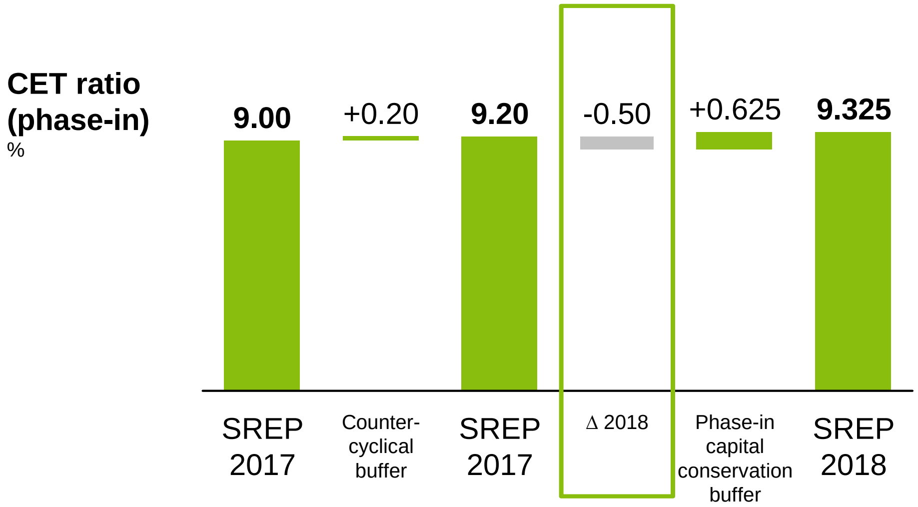
(only REF affected)



- RWA relief 2014-2017 mainly driven by re-/prepayments and rating changes, which were only partially compensated by new business
- ECB recalibration focus on PD and LGD parameter provide for more RWA stability over the cycle

SREP requirement 2018

(First draft indication)



- Reduction of SREP requirement by -0.5%-pts through improvement of risk profile
- Capital conservation buffer with phase-in in 2 steps – +0.625%-pts in 2018 and 2019
- SREP requirement 2018 (first draft indication)
  - CET 1 ratio
    - phase-in: 9.325% (2017: 9.2%)
    - fully-loaded: 9.95% (2017: 10.45%)
  - Own funds ratio
    - Phase-in: 12.825% (2017: 12.7%)
    - fully loaded: 13.45% (2017: 13.95%)

Segment reporting: Real Estate Finance (REF)

New business on solid level – continued focus on conservative risk positioning

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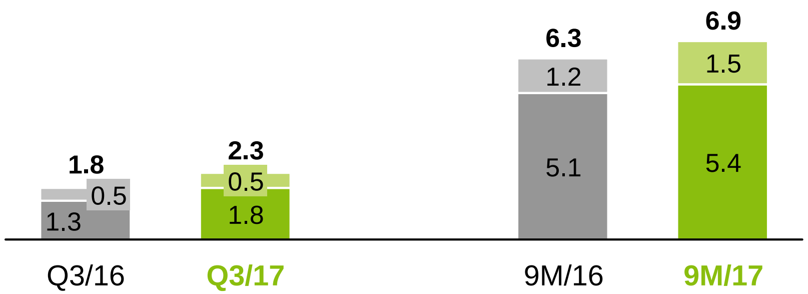
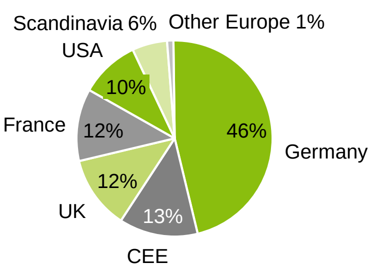
New business

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



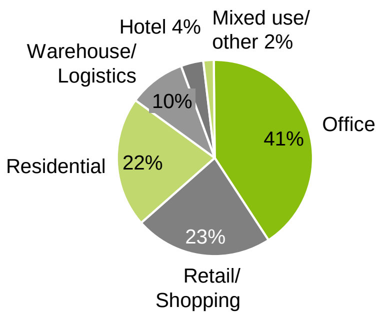
Regions

9M/17: EUR 6.9 bn



Property types

9M/17 EUR 6.9 bn



New business	9M/16	2016	9M/17
Total volume (EUR bn)	6.3	9.5	6.9
thereof: Extensions >1 year	1.2	*1.6*	*1.5*
No. of deals	126	189	147
Average maturity (years)[1]	~5.0	~5.1	~5.1
Average LTV (%)[2]	62	62	61
Average gross margin (bp)	~170	>175	>160

Income statement (IFRS, EUR mn)	Q3/16	Q3/17	9M/16	9M/17
Operating income	83	86	225	245
thereof: Net interest income	*82*	*88*	*234*	*255*
Net commission income	*2*	*2*	*5*	*7*
Other revenues	*-1*	*-4*	*-14*	*-17*
Loan-loss provisions	-6	-2	-6	-3
General administrative expenses	-41	-42	-114	-123
Pre-tax profit	**32**	**42**	**101**	**121**
Key indicators	**Q3/16**	**Q3/17**	**9M/16**	**9M/17**
CIR (%)	49.4	48.8	50.7	50.2
RoE before tax (%)	20.8	25.8	24.2	25.7
Equity (EUR bn, excl. revaluation reserve)	0.5	0.6	0.5	0.6
RWA (EUR bn)	5.9	8.6	5.9	8.6
Financing volume (EUR bn)	24.0	24.6	24.0	24.6

Key drivers Q3/9M 2017:

- New business volume on solid level with avg. gross margin slightly down in Q3/17
  - high competition, therefore continued focus on conservative risk positioning (avg. LTV 61%)
  - Higher share of investment loans
- Financing volume slightly up y-o-y and q-o-q (09/17: EUR 24.4 bn; 06/17: EUR 24.1 bn; 09/16: EUR 24.0 bn)
- Positive financial segment performance mainly driven by positive NII development, operating costs up in line with expectation, LLPs remain low

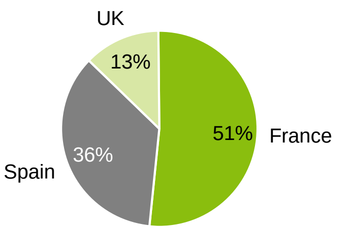
Note: Figures may not add up due to rounding 1 Legal maturities 2 New commitments; avg. LTV (extensions): 57%; 9M/16: 56%; 2016: 56%

Segment reporting: Public Investment Finance (PIF)

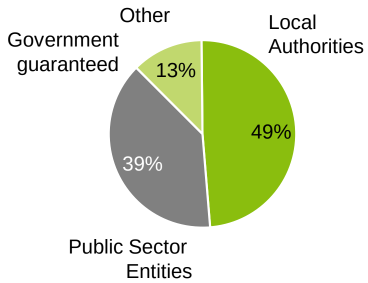
New business mainly driven by demand in Spain and UK in Q1/17

New business
EUR billions (commitments)

Regions
9M/17: EUR 0.6 bn



Counterparty Types
9M/17: EUR 0.6 bn



New business	**9M/16**	**2016**	**9M/17**
Total volume (EUR bn)	0.4	1.0	0.6
No. of deals	15	28	19
Average maturity (years)[1]	~8.3	~8.8	~9.0
Average gross margin (bp)	>100	~85	>90

Income statement (IFRS, EUR mn)	**Q3/16**	**Q3/17**	**9M/16**	**9M/17**
Operating income	5	8	23	22
thereof: Net interest income	*7*	*8*	*25*	*26*
Loan-loss provisions	-	-	-	-
General administrative expenses	-7	-7	-20	-21
Pre-tax profit	**-3**	**1**	**2**	**1**
Key indicators	**Q3/16**	**Q3/17**	**9M/16**	**9M/17**
CIR (%)	>100	87.5	87.0	95.5
RoE before tax (%)	-1.9	1.3	1.4	0.5
Equity (EUR bn, excl. revaluation reserve)	0.3	0.3	0.3	0.3
RWA (EUR bn)	1.5	1.4	1.5	1.4
Financing volume (EUR bn, nominal)	7.2	7.2	7.2	7.2

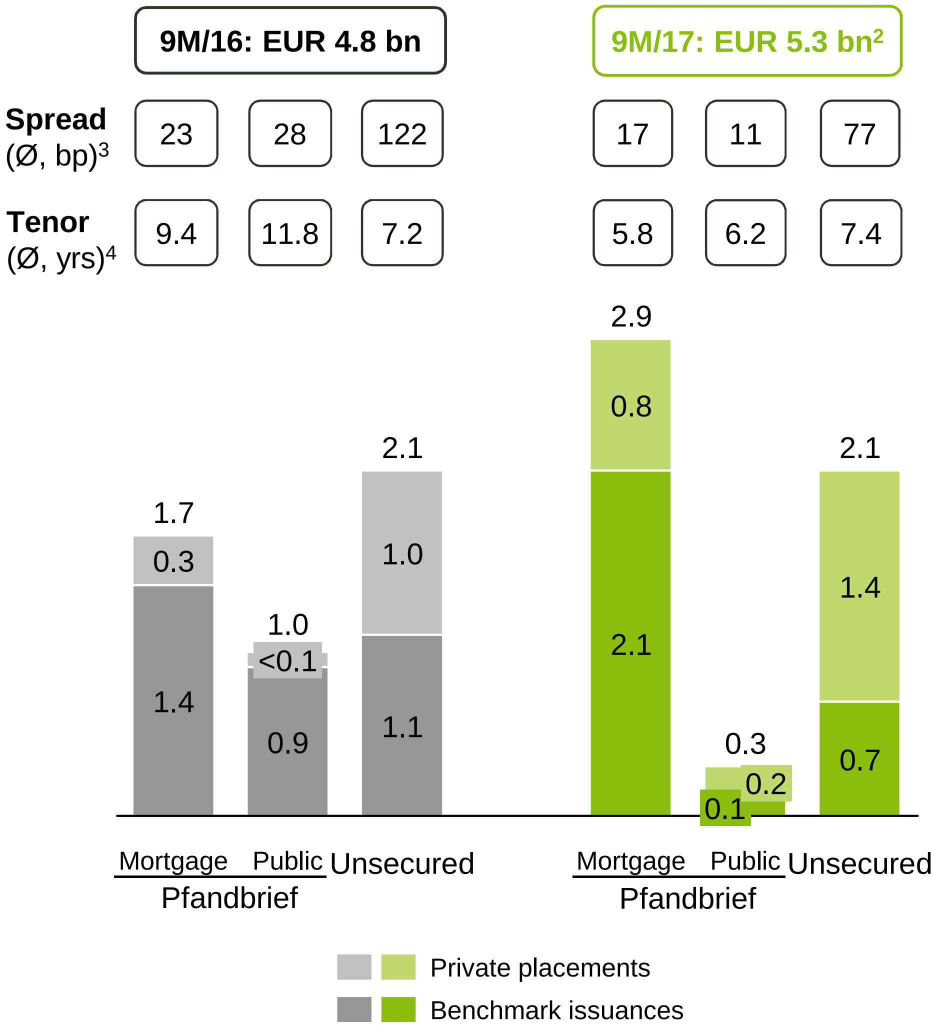
Key drivers Q3/9M 2017:

- New business mainly driven by demand in Spain and UK in Q1/17
- Financing volume slightly down in Q3/17 due to maturities, but stable y-o-y (EUR 7.2 bn)
- Financial segment performance slightly up y-o-y, but influenced by allocation effects

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

Funding
Holistic management of capital and funding – funding costs further reduced

New long-term funding
EUR billions[1]



Pfandbriefe

- Currency matched funding:
  - Mortgage Pfandbriefe: GBP 300 mn, SEK 2.6 bn; first USD benchmark USD 600 mn, tapped by USD 100 mn in August
  - Public Pfandbriefe: USD 100 mn
- EUR Pfandbriefe: Two EUR 500 mn and EUR 100 mn tap

Senior Unsecured

- EUR 500 mn + EUR 150 mn benchmarks issued in January and February
- In addition, strong private placements
- EUR 190 mn senior preferred issued (Structured Notes rated A-)

AT1/Tier 2

- EUR 350 mn Hybrid Tier 1 redeemed in June
- New Tier 2 issuances of EUR 0.5 bn, incl. inaugural EUR 300 mn benchmark issued in June

pbb direkt

- Total volume stable at EUR 3.4 bn (12/16: EUR 3.4 bn); average maturity[5] 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

Outlook 2017/2018

PBT guidance 2017 raised to EUR 195-200 mn – planning/PBT guidance for 2018 will again be conservative, especially with regards to risk costs

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- **PBT guidance 2017** raised to EUR 195-200 mn after good results in Q3/17 and anticipated stable development in Q4/17
  - NII and low risk costs being the drivers also into Q4/17
  - Project costs expected to increasingly weigh on overall cost level from Q4/17 (regulatory costs, strategic investments)
  - New business in line with expectations
- Positive factors in 2017 cannot be taken as a given for 2018 - therefore, **planning/PBT guidance for 2018** will again be conservative, especially with regards to risk costs
  - Overall **market environment** to remain challenging
    - Low interest rate environment to persist
    - Demand for Real Estate asset class to remain high – high priced asset class provides yield uplift vs. long-term government yields
    - Selective on new business as margins remain under pressure
    - Positive funding situation expected to continue
  - **Risk costs** will be influenced by IFRS 9 implementation due to change of valuation from actual credit loss model to expected credit loss model
  - **Operating costs** still to be influenced by regulatory projects and strategic investments
- **Dividend proposal for 2017** and **full guidance for 2018** to be provided with release of full-year results 2017

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