

# Press Briefing Results 1Q17

PUBLIC SECTOR FINANCE  
REAL ESTATE FINANCE



DEUTSCHE  
PFANDBRIEFBANK

## Solid start into 2017 with PBT of EUR 47 mn

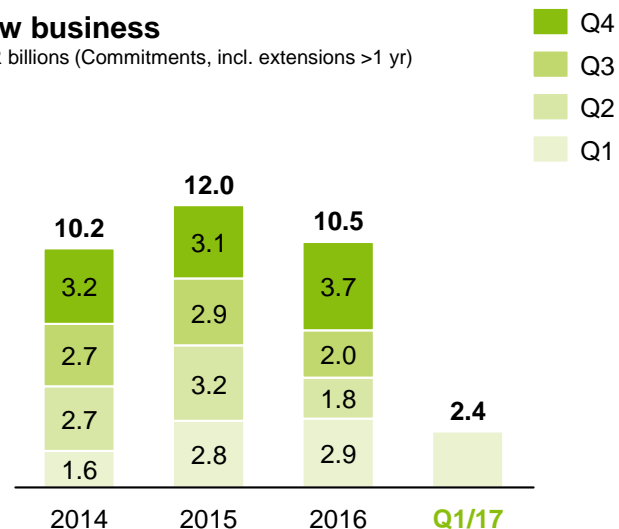
**Andreas Arndt, CEO/CFO**  
Unterschleissheim, 15 May 2017

# Highlights

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

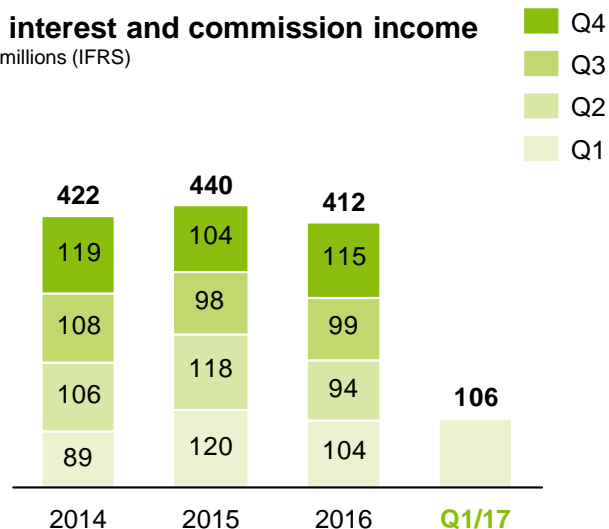
### New business

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



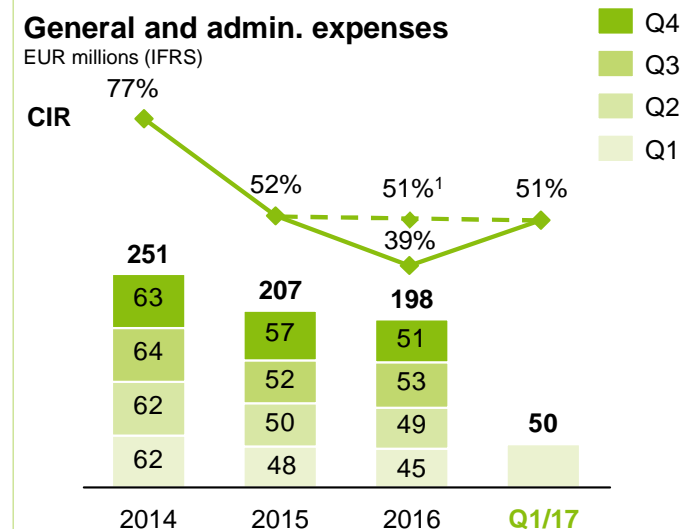
### Net interest and commission income

EUR millions (IFRS)



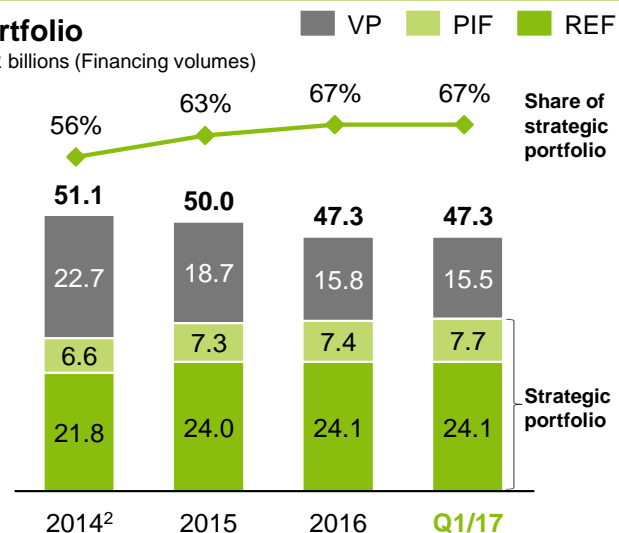
### General and admin. expenses

EUR millions (IFRS)



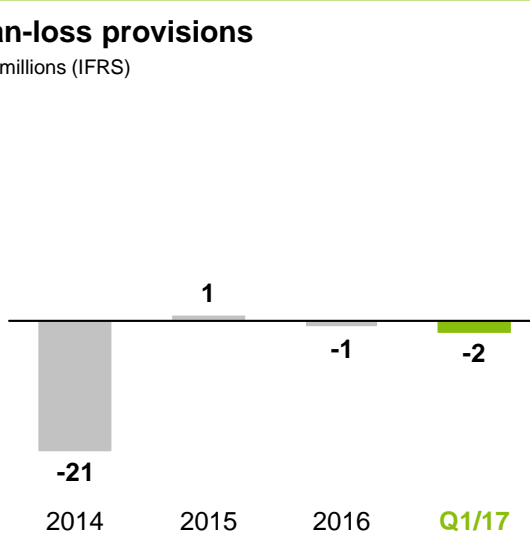
### Portfolio

EUR billions (Financing volumes)



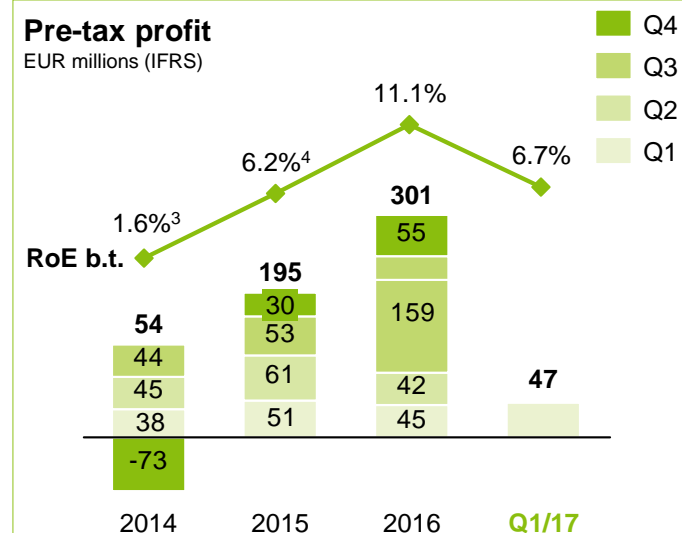
### Loan-loss provisions

EUR millions (IFRS)



### Pre-tax profit

EUR millions (IFRS)



Note: Figures may not add up due to rounding. 1 adjusted for HETA-effect. 2 Restated; figures retrospectively adjusted for transfer of Italian PIF portfolio into VP (as of 01/01/15). 3 Incl. EUR 1 bn silent participation of Sonderfonds Finanzmarktstabilisierung (FMS) included until redemption in July 2015. 4 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 slightly positive development over the last quarters

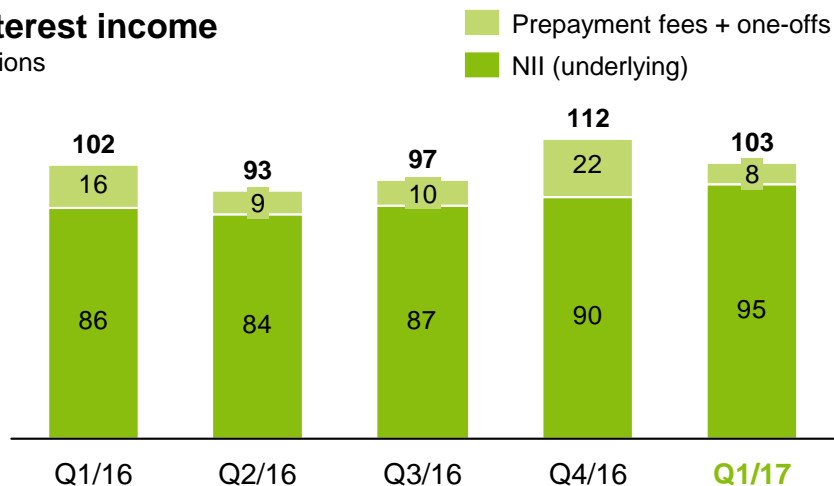
### Income from lending business

EUR millions

	Q1/16	Q4/16	Q1/17
Net interest income	102	112	103
<i>thereof: Prepayment fees</i>	11	22	8
<i>One-off effects</i>	5	0	0
Net fee and commission income	2	3	3
<b>Total</b>	<b>104</b>	<b>115</b>	<b>106</b>

### Net interest income

EUR millions



#### Key drivers Q1/17:

- NII stable y-o-y and down q-o-q; less benefitting from prepayment fees and positive one-off effects, but underlying NII up
  - Avg. strategic portfolio at EUR 31.7 bn in Q1/17 vs. EUR 31.4 bn in Q1/16 with relatively stable average portfolio margin
  - Low refinancing costs – maturities of liabilities with higher costs vs. lower new funding costs
- Total 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 reinvestments of equity/ liquidity book

## Income statement

### Loan-loss provisions stay low

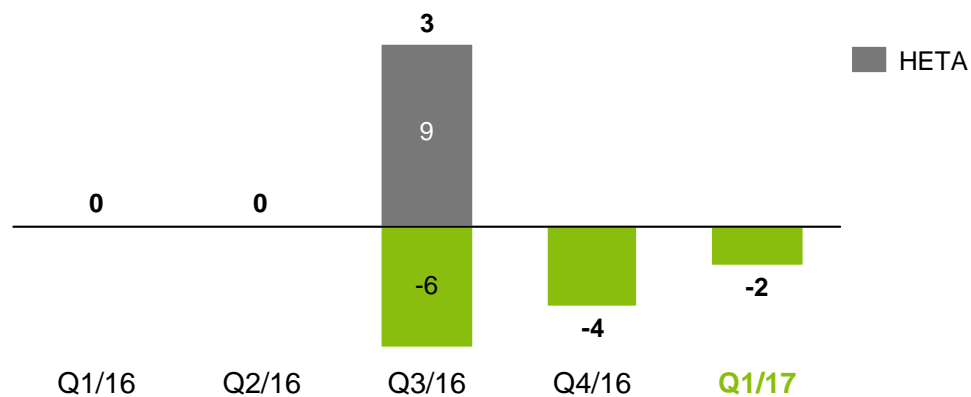
### Loan-loss provisions

EUR millions

	Q1/16	Q4/16	Q1/17
Specific allowances	1	5	-4
<i>Additions</i>	-	-2	-4
<i>Releases</i>	1	7	-
Portfolio-based allowances	-2	-10	2
Other allowances	1	-	-
Recoveries from write-offs	-	1	-
<b>Total</b>	<b>0</b>	<b>-4</b>	<b>-2</b>

#### Key drivers Q1/17:

- LLPs stay low with EUR -2 mn – no major new single cases
  - EUR -4 mn additions to specific allowances
  - EUR 2 mn releases of portfolio-based allowances
- Coverage ratio<sup>2</sup> up 29% (12/16: 26%), benefitting from decrease in NPLs



<sup>1</sup> Based on internal ratings (EL classes): EL classes 1-8 = Investment grade; EL classes 9-18 = Non-investment grade

<sup>2</sup> "SLLPs" in relation to "Book value of receivables with SLLPs"

## Income statement

### Operating remain under control – increase of personnel costs as expected

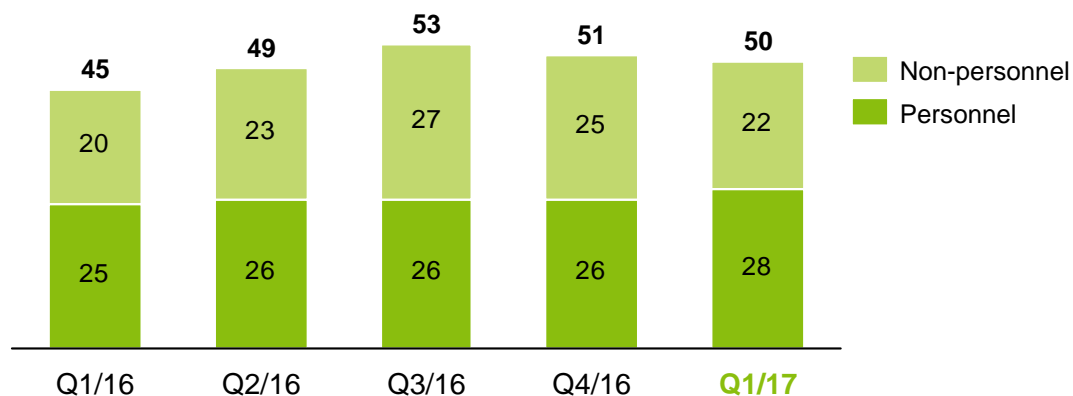
#### General and administrative expenses

EUR millions

	Q1/16	Q4/16	Q1/17
General admin. expenses	-45	-51	-50
<i>Personnel</i>	-25	-26	-28
<i>Non-personnel</i>	-20	-25	-22
<i>CIR (%)</i>	50.0	45.1	51.0

#### Key drivers Q1/17:

- GAE up y-o-y as expected
  - Last year benefitted from releases of provisions made in prior years – this effect fell away in 2017 (personnel expenses)
  - Non-personnel expenses include project related costs esp. for regulatory projects
- All in all, costs remain under control – FTEs down to 739 FTE (12/16: 756 FTE) below year-end expectation; countermovement expected due to increasing regulatory staffing demands



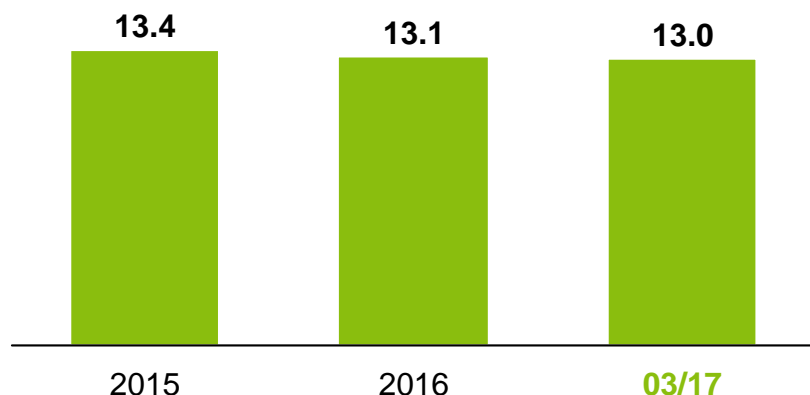
# Capitalisation

Capitalisation remains strong, providing buffer for regulatory changes to come



## Basel III: RWA

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



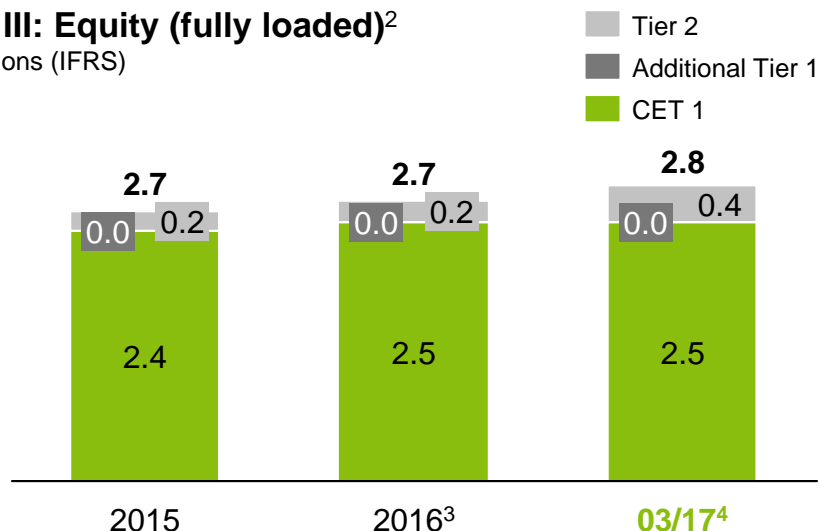
## Basel III: Capital ratios (fully loaded)

% (IFRS)

in %	12/15	12/16 <sup>3</sup>	03/17 <sup>4</sup>	Mid-term targets
CET 1	18.2	19.0	19.2	>12.5
Tier 1	18.2	19.0	19.2	>16
Own funds	19.9	20.7	21.9	16-18
Leverage ratio	3.9	4.2	4.3	>3.5

## Basel III: Equity (fully loaded)<sup>2</sup>

EUR billions (IFRS)



## Key drivers Q1/17:

- pbb strategy aims at capital buffers to provide cushion for RWA challenges (e.g. ECB model review/'TRIM', Basel IV), business growth and cyclical risks
- RWA reductions mainly driven by re-/prepayments, reduction of VP and positive rating changes
- Total equity slightly up due to new Tier 2 issuances

## SREP:

- SREP requirements<sup>5</sup> for 2017 decreased to 9.0% CET1 compared to 10.75% for 2016, new overall capital requirement at 12.5%

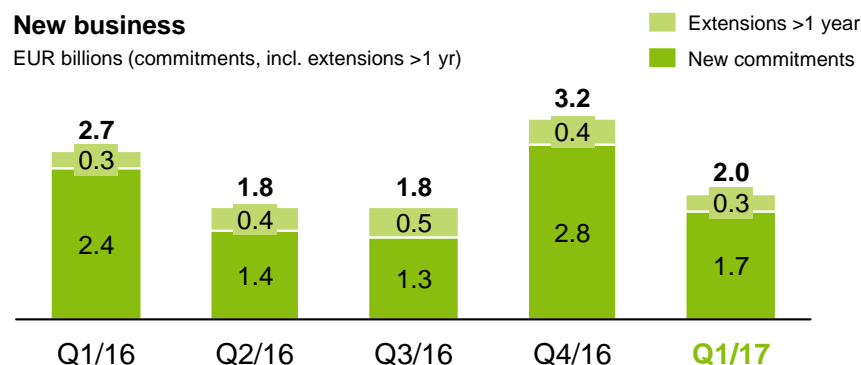
Note: Figures may not add up due to rounding 1 No transitional rules to be applied 2 Simulation based on full implementation of CRR; actual figures may vary significantly from simulation 3 Incl. full-year result, post proposed dividend 4 Excl. interim result, post proposed dividend for 2016 5 Incl. capital conservation buffer, excl. countercyclical buffer

## Segment reporting: Real Estate Finance (REF)

**New business on solid level – unchanged conservative business approach;  
US with 8% share in total new business**

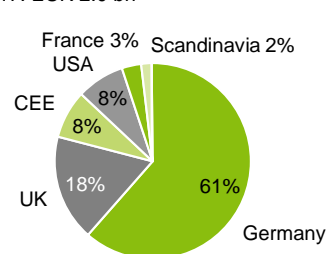
### New business

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



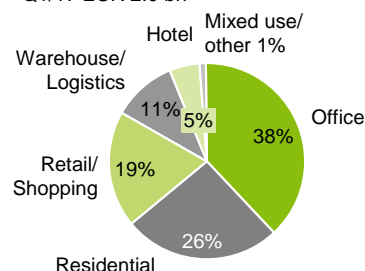
### Regions

Q1/17: EUR 2.0 bn



### Property types

Q1/17 EUR 2.0 bn



New business	Q1/16	2016	Q1/17
Total volume (EUR bn)	2.7	9.5	2.0
<i>thereof: Extensions &gt;1 year</i>	0.3	1.6	0.3
No. of deals	44	189	48
Average maturity (years) <sup>1</sup>	~5.3	~5.1	~5.6
Average LTV (%) <sup>2</sup>	63	62	62
Average gross margin (bp)	~170	>175	>160

Income statement (IFRS, EUR mn)	Q1/16	Q1/17
Operating income	68	73
<i>thereof: Net interest income</i>	77	83
<i>Net commission income</i>	2	3
<i>Other revenues</i>	-11	-13
Loan-loss provisions	-	-3
General administrative expenses	-36	-40
<b>Pre-tax profit</b>	<b>32</b>	<b>31</b>
Key indicators	Q1/16	Q1/17
CIR (%)	52.9	54.8
RoE before tax (%)	24.7	21.1
Equity (EUR bn, excl. revaluation reserve)	0.5	0.6
RWA (EUR bn)	6.4	6.3
Financing volume (EUR bn)	24.1	24.1

### Key drivers Q1/17:

- New business down from strong levels in Q1 and Q4/16, but on solid level
  - Avg. gross margin down, given high German new business share (61%)
  - Cautious growth of US business (8% share)
  - Avg. LTV stable at 62%
- Financing volume stable y-o-y and q-o-q
- Segment performance stable, based on increased NII but higher costs; LLPs remain low

Note: Figures may not add up due to rounding    1 Legal maturities    2 New commitments; avg. LTV (extensions): 44%; Q1/16: 56%; 2016: 56%

## Segment reporting: Public Investment Finance (PIF)

### New business and financing volume up y-o-y

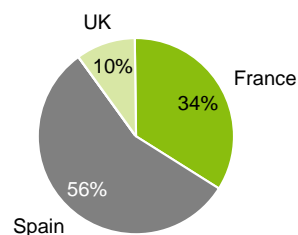
#### New business

EUR billions (commitments)



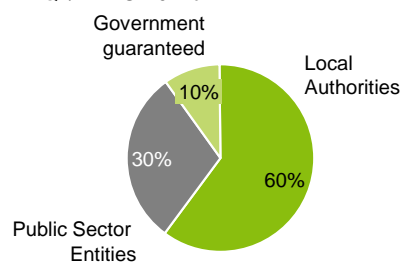
#### Regions

Q1/17: EUR 0.4 bn



#### Counterparty Types

Q1/17: EUR 0.4 bn



New business	Q1/16	2016	Q1/17
Total volume (EUR bn)	0.2	1.0	0.4
No. of deals	7	28	7
Average maturity (years) <sup>1</sup>	~8.2	~8.8	~8.9
Average gross margin (bp)	>75	~85	>90

Income statement (IFRS, EUR mn)	Q1/16	Q1/17
Operating income	9	5
<i>thereof: Net interest income</i>	9	9
Loan-loss provisions	-	-
General administrative expenses	-6	-6
<b>Pre-tax profit</b>	<b>3</b>	<b>-1</b>
Key indicators	Q1/16	Q1/17
CIR (%)	66.7	>100
RoE before tax (%)	3.7	-0.8
Equity (EUR bn, excl. revaluation reserve)	0.3	0.3
RWA (EUR bn)	1.4	1.4
Financing volume (EUR bn, nominal)	7.3	7.7

#### Key drivers Q1/17:

- New business volume up y-o-y, mainly driven by good demand in Spain and UK
  - Ongoing standstill of ECA aircraft financing in Germany
  - Avg. gross margin up
- Financing volume increased by 5% y-o-y
- Financial performance influenced by allocation effects – prior year more benefited from these effects

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



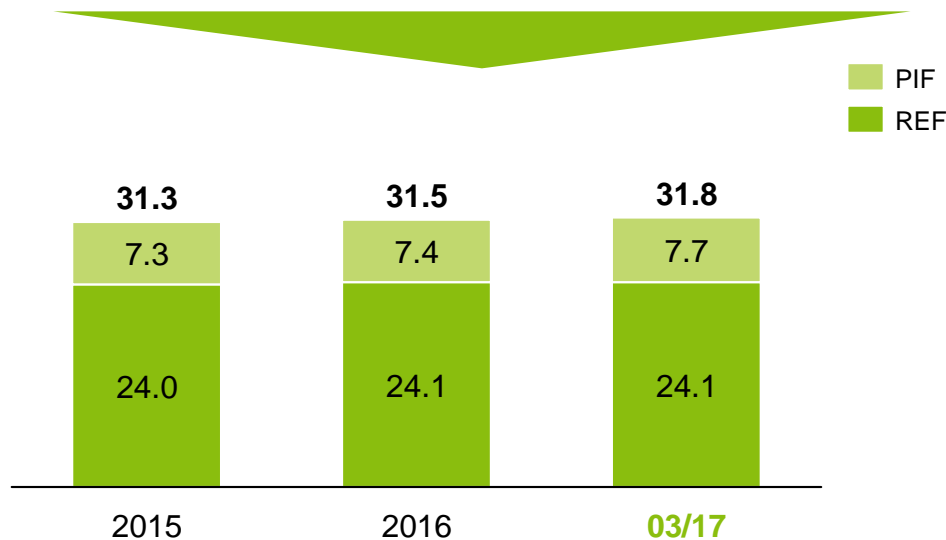
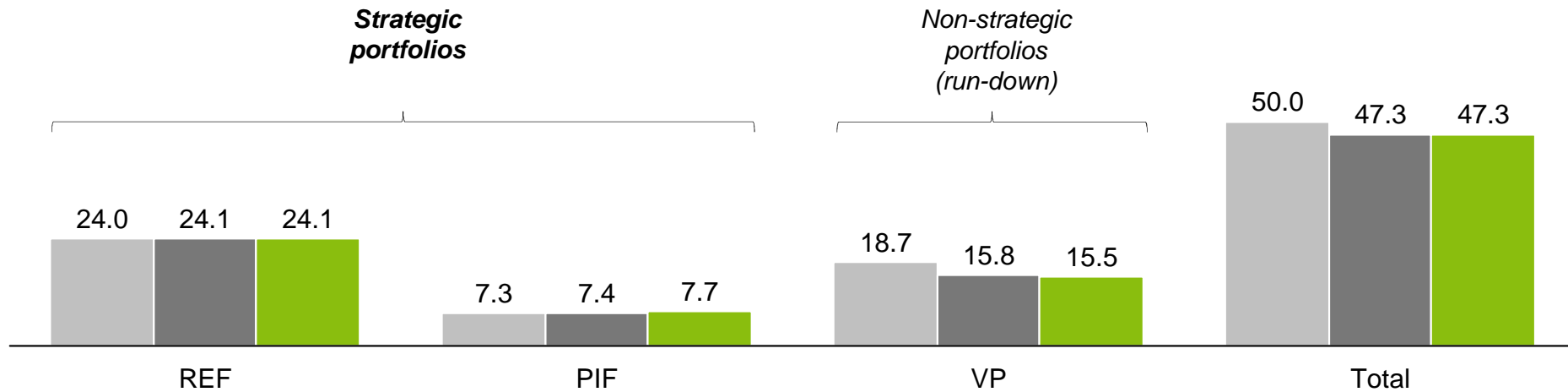
## Portfolio

### Strategic portfolio slightly up q-o-q

#### Total portfolio

EUR billions (Financing volumes)

12/15 12/16 03/17



#### Key drivers Q1/17:

- Strategic portfolio (REF+PIF) slightly up, based on increased PIF portfolio; REF portfolio stable
- Run-down of non-strategic Value Portfolio continued in line with strategy

Note: Figures may not add up due to rounding

## Funding

Diverse funding base through Pfandbriefe, senior unsecured and retail deposits;  
focus on currency matched Pfandbrief funding

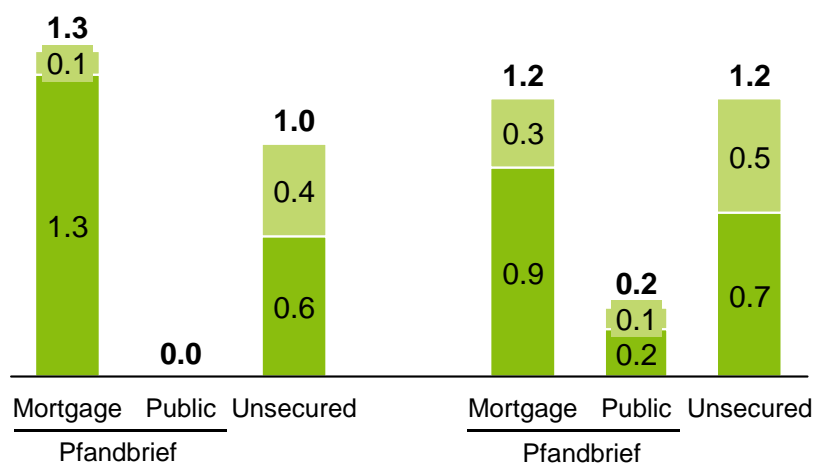


### New long-term funding

EUR billions<sup>1</sup>

	Q1/16: EUR 2.3 bn			Q1/17: EUR 2.7 bn		
<b>Spread</b> (Ø, bp) <sup>2</sup>	22	-	124	20	11	82
<b>Tenor<sup>3</sup></b> (Ø, yrs)	7.7	-	5.3	5.6	2.8	4.6

■ Private placements  
■ Benchmark issuances



### Pfandbriefe

- Focus on currency matched funding:
  - Mortgage Pfandbriefe: GBP 300 mn, SEK 1.2 bn
  - Public Pfandbriefe: USD 100 mn
- First USD Mortgage Pfandbrief Benchmark USD 600 mn placed in April

### Senior Unsecured

- EUR 500 mn + EUR 150 mn Benchmarks issued in January and February
- In addition, strong private placements
- pbb restarted issuance of Tier 2 in 2016; further issuances in Q1/17 and more expected to come

### pbb direkt

- Total volume stable at EUR 3.4 bn (12/16: EUR 3.4 bn); average maturity<sup>3</sup> at 3.6 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 vs. 3M Euribor 3 Initial weighted average maturity

## Summary & Outlook

### 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

## 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

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