

Press Briefing Results 1Q17

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK

Solid start into 2017 with PBT of EUR 47 mn

Andreas Arndt, CEO/CFO
Unterschleissheim, 15 May 2017

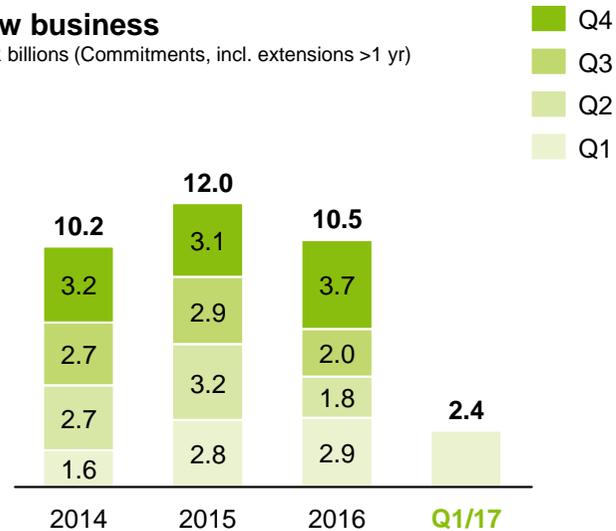
Highlights

Operating and financial overview – solid underlying financial performance despite headwinds



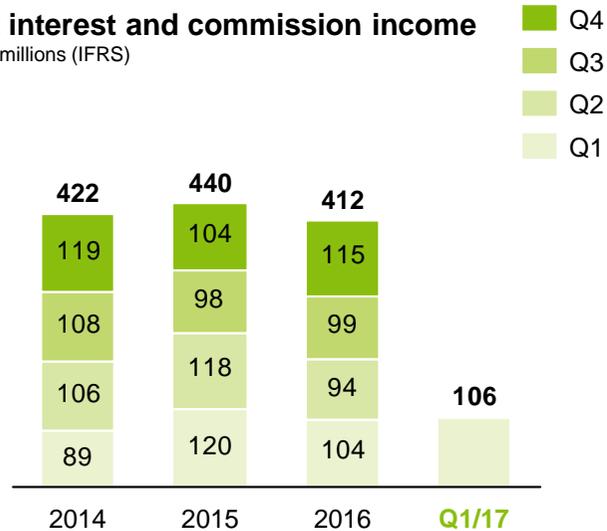
New business

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



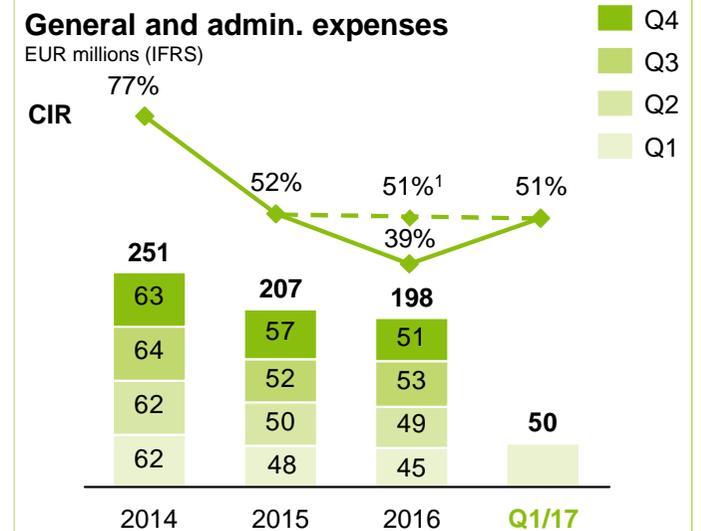
Net interest and commission income

EUR millions (IFRS)



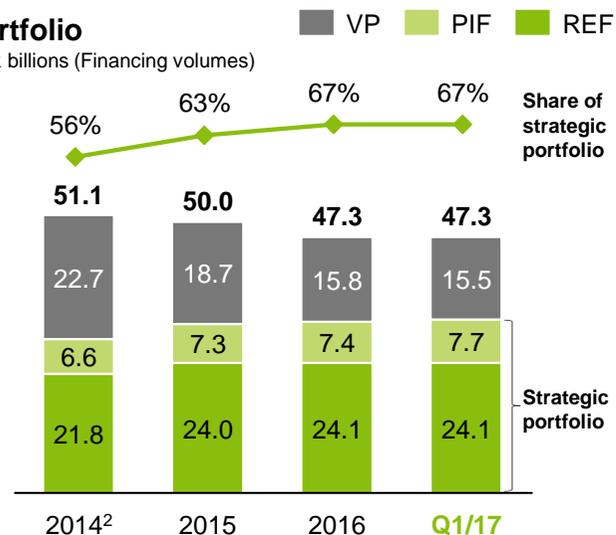
General and admin. expenses

EUR millions (IFRS)



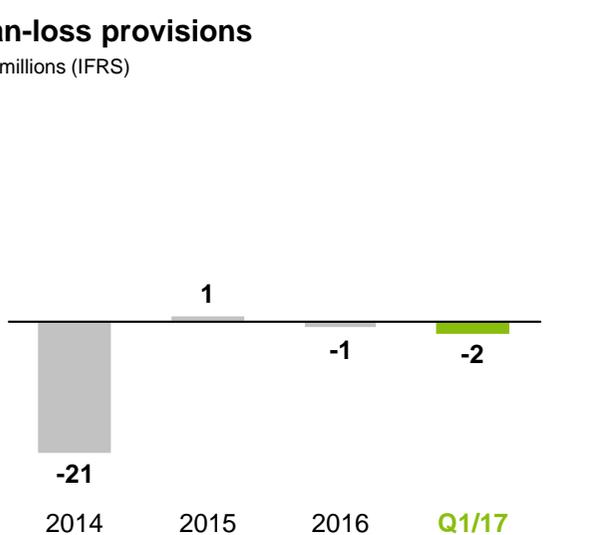
Portfolio

EUR billions (Financing volumes)



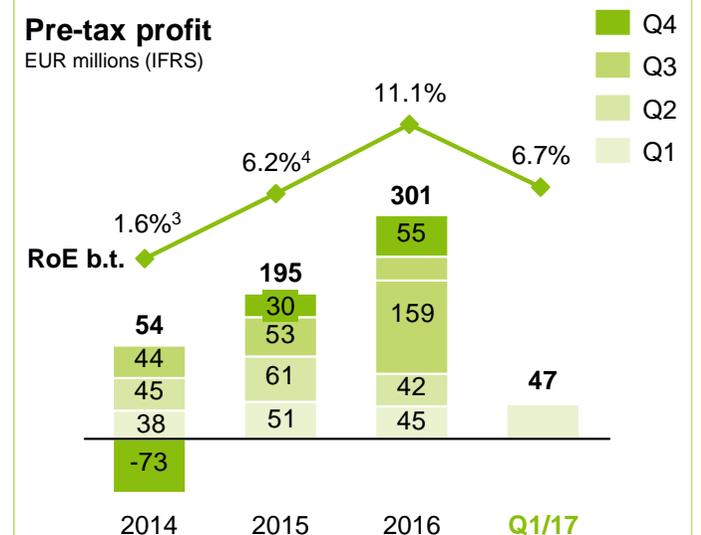
Loan-loss provisions

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) 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

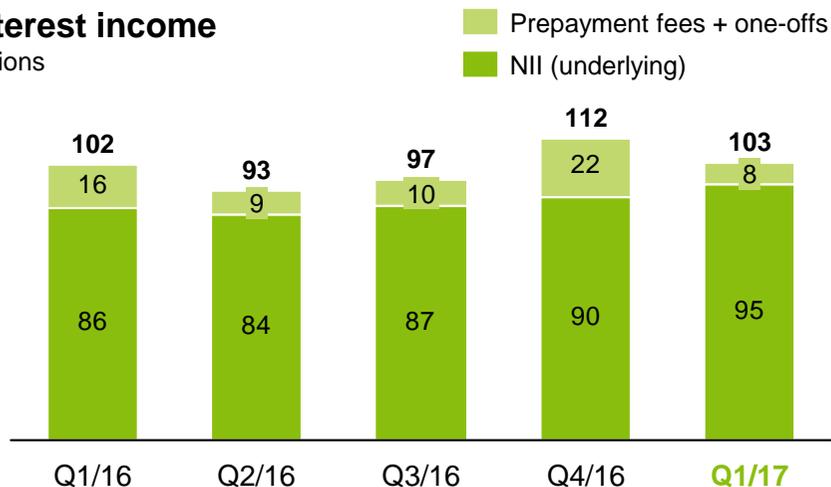
Income from lending business

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
Total	104	115	106

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

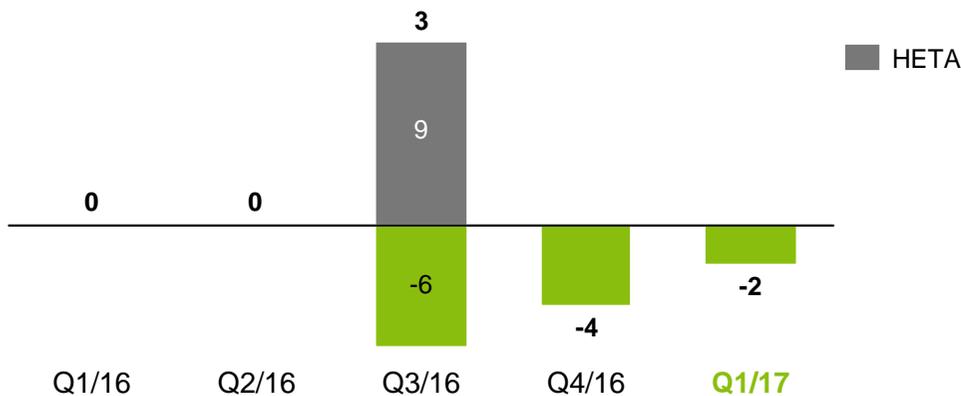
Loan-loss provisions

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	-
Total	0	-4	-2

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 ratio² up 29% (12/16: 26%), benefitting from decrease in NPLs



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

² "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

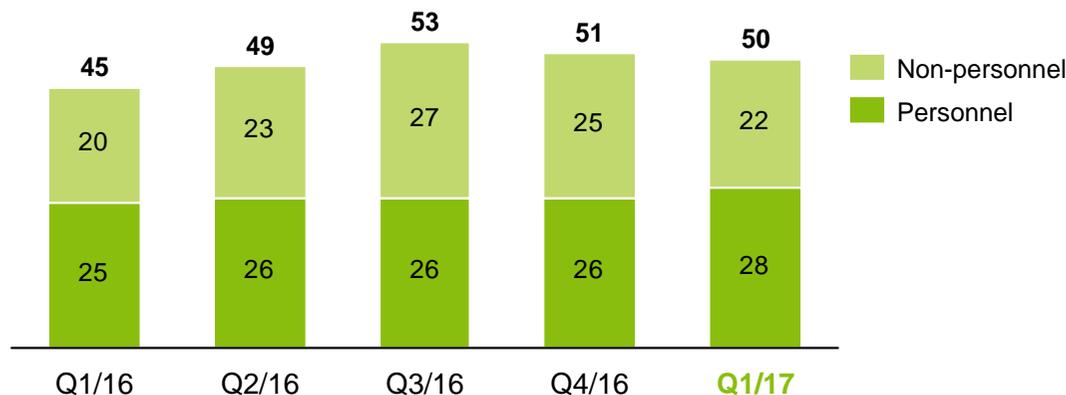
EUR millions

	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



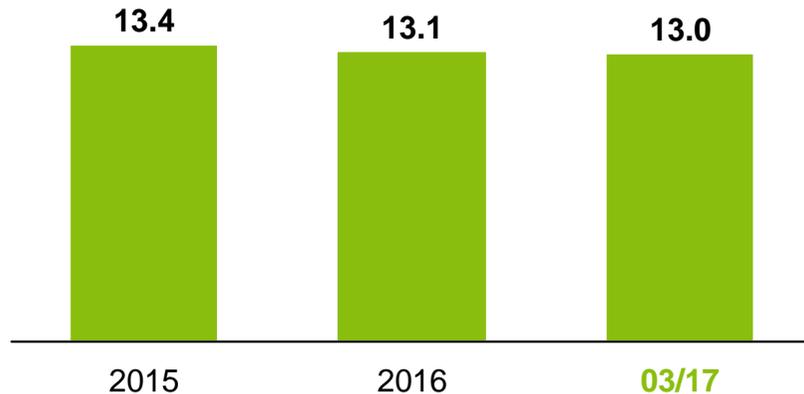
Capitalisation

Capitalisation remains strong, providing buffer for regulatory changes to come



Basel III: RWA

EUR billions (IFRS)¹



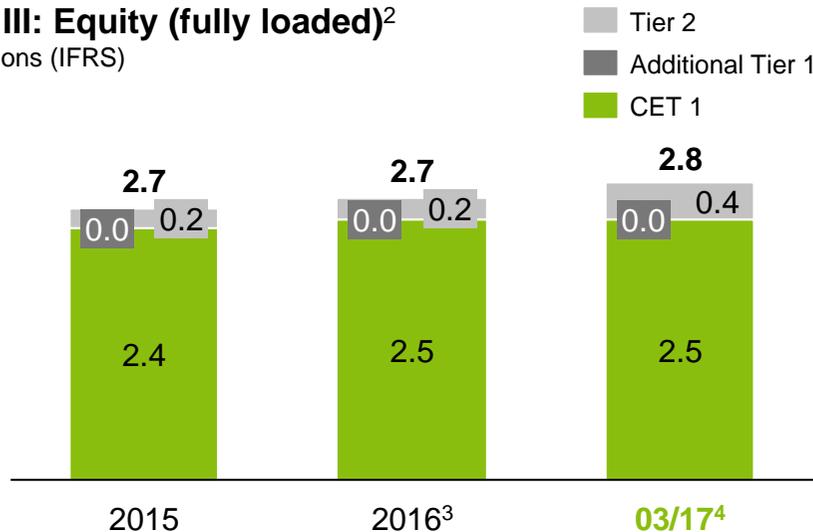
Basel III: Capital ratios (fully loaded)

% (IFRS)

in %	12/15	12/16 ³	03/17 ⁴	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)²

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 requirements⁵ for 2017 decreased to 9.0% CET1 compared to 10.75% for 2016, new overall capital requirement at 12.5%

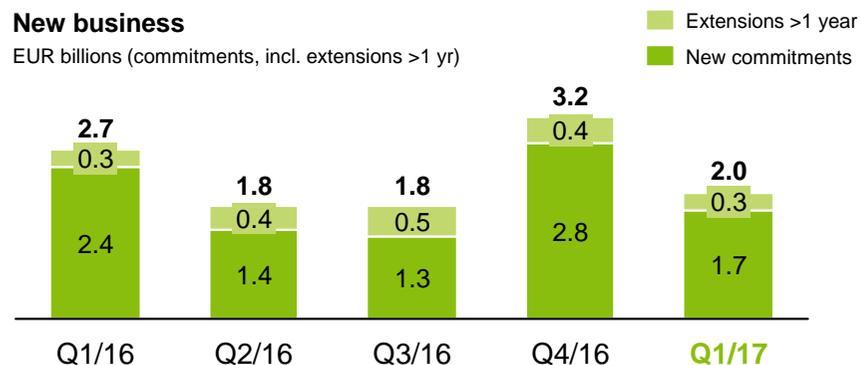
Note: Figures may not add up due to rounding ¹ No transitional rules to be applied ² Simulation based on full implementation of CRR; actual figures may vary significantly from simulation ³ Incl. full-year result, post proposed dividend ⁴ Excl. interim result, post proposed dividend for 2016 ⁵ Incl. capital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

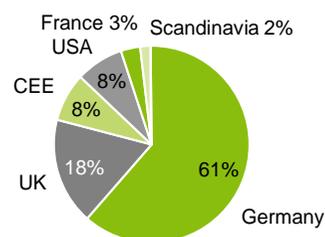
New business

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



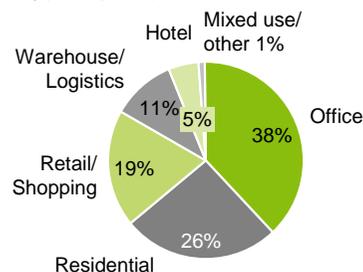
Regions

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 >1 year</i>	0.3	1.6	0.3
No. of deals	44	189	48
Average maturity (years) ¹	~5.3	~5.1	~5.6
Average LTV (%) ²	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
Pre-tax profit	32	31
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

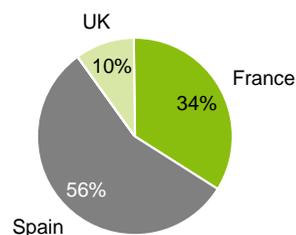
New business

EUR billions (commitments)



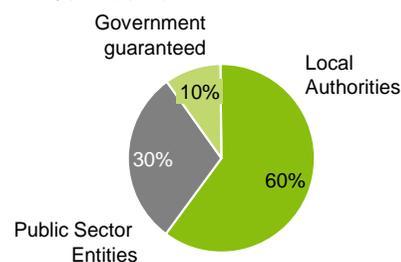
Regions

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) ¹	~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
Pre-tax profit	3	-1
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 ¹ Weighted average lifetime

Portfolio

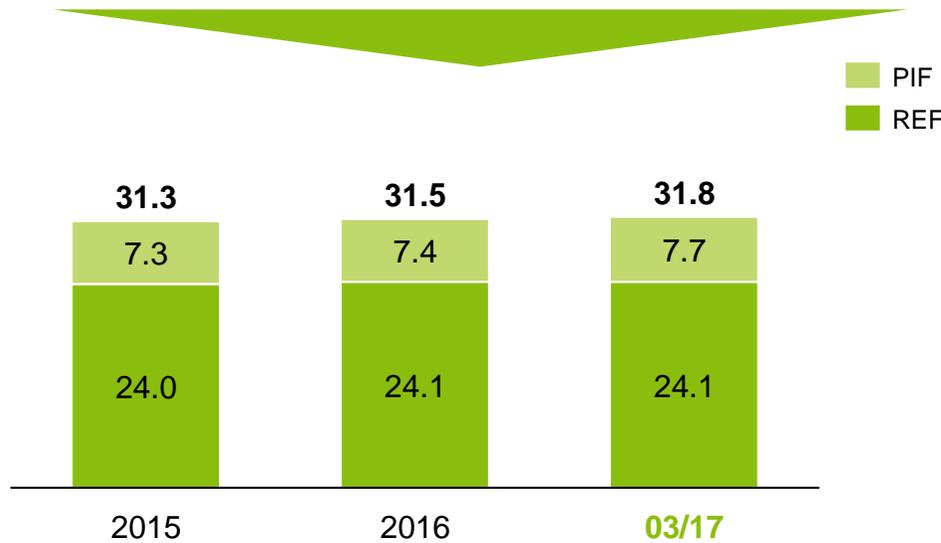
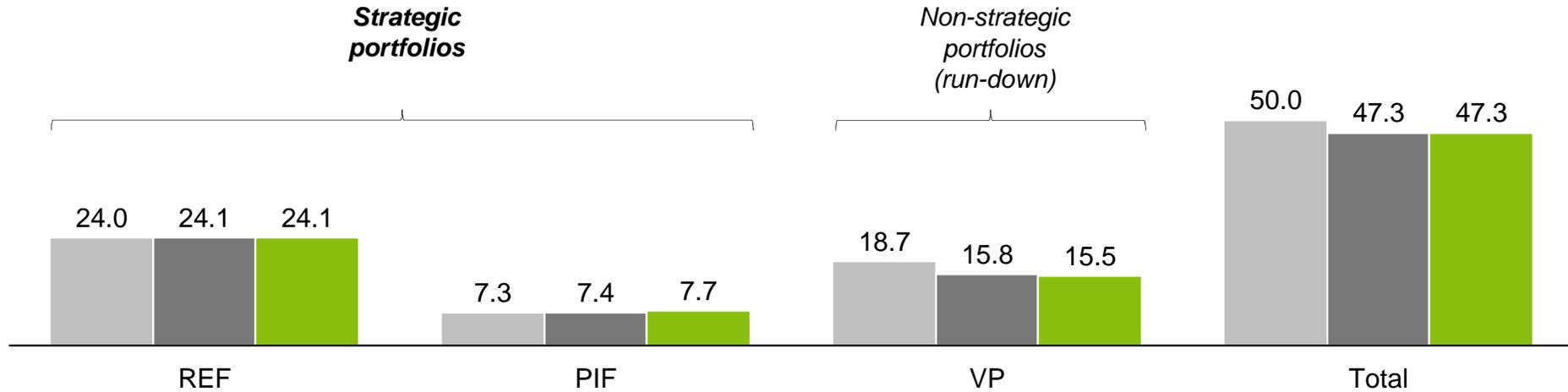
Strategic portfolio slightly up q-o-q



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 billions¹

Q1/16: EUR 2.3 bn

Q1/17: EUR 2.7 bn

Spread
(Ø, bp)²

22 - 124

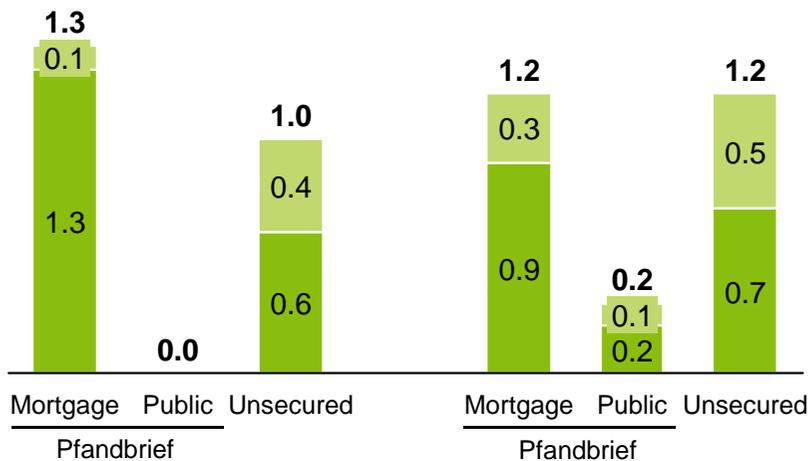
20 11 82

Tenor³
(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 maturity³ 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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