News

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pbb posts a good start into 2018, reports marked increase in net interest income

- €48 million in consolidated profit before tax (consolidated, in accordance with IFRS)
- Net interest income up strongly, from €97 million to €107 million – thanks to more favourable funding conditions and higher strategic portfolio volume
- General and administrative expenses lowered to €44 million – no risk provisioning required
- New business reduced in a challenging market environment – slightly higher gross margins on new Real Estate Finance business

Munich, 14 May 2018 – pbb Deutsche Pfandbriefbank generated consolidated profit before tax of €48 million in the first quarter of 2018, slightly outperforming the same quarter of the previous year, which benefited from non-recurring effects (Q1 2017: €47 million; consolidated, unaudited figures in accordance with IFRS). The good results were due in particular to higher net interest income, which was up €10 million year-on-year, to €107 million. General and administrative expenses declined slightly, to €44 million (Q1 2017: €45 million). pbb was able to release risk provisions of €4 million net (Q1 2017: no net provisions for loan losses). First-quarter results were burdened by the bank levy; in spite of lower total assets, pbb was required to pay €20 million (unchanged from the previous year), taking into account 15% cash collateral pledged.

New business (including extensions beyond one year) originated during the first quarter amounted to €1.8 billion (Q1 2017: €2.4 billion). Whilst volumes originated in commercial Real Estate Finance were on a solid level of €1.7 billion (Q1 2017: €2 billion), they declined in Public Investment Finance. Moreover, pbb raised its gross margin on new Real Estate Finance business to above 170 basis points (bp; FY2017: > 155 bp; Q1 2017: > 160 bp). Adhering to its risk-conservative approach to new business, against the background of unabated strong competition and the very mature state of the real estate cycle, pbb guided in March 2018 that full-year new business volume would be between €10 billion and €11 billion.

Andreas Arndt, CEO and CFO of pbb, said: "pbb had a good start into 2018. The results reflect the Bank's good operating stability. We are currently benefiting from low funding costs, which are not least a reflection of the market's improved assessment for pbb. Given that the credit and real estate markets remain challenging, we retain our risk-conservative stance as well as a cautious outlook."

pbb continues to make good progress in its strategic initiatives: the Bank's US business is expanding as planned, and CAPVERIANT, pbb's new platform for public-sector financings, is scheduled to go live in May. The Bank already rolled out a portal site for the efficient exchange of data and information with commercial Real Estate Finance clients in April.

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FACTS AND FIGURES FOR THE FIRST QUARTER OF 2018

1. New business

New commercial **Real Estate Finance** business (including extensions beyond one year) declined to €1.7 billion (Q1 2017: €2.0 billion). At €0.2 billion, the share of extensions was roughly on par with the previous year (Q1 2017: €0.3 billion). The average loan-to-value ratio of 62% was in line with the previous year's level. Average gross margin on new business rose to above 170 bp during the quarter under review, exceeding the first quarter of 2017 (Q1 2017: above 160 bp).

The distribution of new business across the regions was largely in line with the structure of the existing portfolio – except for the United Kingdom, which accounted for 8% of new business (and for 16% of the existing portfolio), and for the United States, which accounted for 15% of the new business (4% of the existing portfolio). These reflected pbb's conservative new business approach in the UK, as well as the expansion of US business since the Bank's market entry there in the second half of 2016.

New **Public Investment Finance** business totalled €0.1 billion during the period under review (Q1 2017: €0.4 billion). The gross margin on new business declined from > 90 bp in the first quarter of 2017, to around 60 bp during the quarter under review due to specific factors.

2. Funding

During the first quarter of 2018, pbb raised new long-term funding in the amount of €2.0 billion (Q1 2017: €2.7 billion). At €1.1 billion (Q1 2017: €1.4 billion), Pfandbriefe accounted for just over half of the total volume, with unsecured funding accounting for €0.9 billion (Q1 2017: €1.2 billion).

Issuing spreads over 3-month Euribor showed further marked decreases across all funding instruments: they stood at -4 bp for Mortgage Pfandbriefe (Q1 2017: 20 bp), flat for Public-Sector Pfandbriefe (Q1 2017: 11 bp), and 49 bp for unsecured issues (Q1 2017: 82 bp).

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3. Consolidated income statement
(in accordance with IFRS, unaudited)

pbb implemented **changes to the reporting structure of the consolidated income statement** with effect from 1 January 2018.

- Specifically, pbb changed its **reporting structure as well as some line items** in the consolidated income statement. Explanations to the individual line items are attached to this press release. Comparative figures for the previous year were adjusted accordingly.

- pbb has applied **IFRS 9** (Financial Instruments) since 1 January 2018. First-time application effects were recognised directly in equity. Overall, equity in accordance with IFRS increased by €126 million before deferred taxes (€109 million after deferred taxes) as a result. In detail, IFRS 9 classification and measurement categories resulted in positive initial application effects of €158 million (before deferred taxes), whilst the introduction of amended impairment loss regulations led to negative initial application effects of €32 million.

Operating income

Net interest income increased from €97 million in the first three months of 2017 to €107 million in the period under review. This positive development was due to lower interest expenses, which reflected maturities of higher-yielding liabilities. At €32.3 billion, the average aggregate financing volume of interest-bearing loans in commercial Real Estate Finance and Public Investment Finance exceeded the level of the previous periods (FY 2017: €31.8 billion; Q1 2017: €31.7 billion), whereas the average volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy to €13.7 billion (FY 2017: €13.8 billion; Q1 2017: €15.7 billion). The average margin of the total portfolio improved slightly compared to the first quarter of 2017.

Net fee and commission income from non-accruable fees amounted to €1 million (Q1 2017: €3 million).

pbb disclosed a balanced **net income from fair value measurement** (Q1 2017: €–2 million). Income from changes in the fair value of derivatives in the amount of €5 million (Q1 2017: €–2 million) was offset by expenses in the amount of €5 million from the result of non-derivative financial instruments measured at fair value through profit or loss in accordance with IFRS 9. Under IAS 39, non-derivative financial instruments were measured at cost.

Net income from realisations (€9 million; Q1 2017: €9 million) comprised prepayment fees of €4 million (Q1 2017: €8 million), fee realisations of €3 million (Q1 2017: €1 million), and redemption of liabilities of €2 million (Q1 2017: €0 million).

Net income from hedge accounting of €–1 million (Q1 2017: €1 million) was due exclusively to ineffective portions from fair value micro-hedge relationships. pbb Group took the option provided under IFRS 9, and continued to apply the hedge accounting rules of IAS 39.

Net other operating income/expenses (€–3 million; Q1 2017: €16 million) mainly comprised expenses from currency translation. The result for the same period of the previous financial year benefited from the sale of assets held in pbb's non-strategic Value Portfolio.

Risk provisioning
Net income from risk provisioning (€4 million; Q1 2017: €0 million) mainly resulted from net reversals of stage 1 and 2 impairments in the amount of €5 million; the short remaining term of Stage 2 exposures contributed to this effect. This was partly offset by net additions to Stage 3 write-downs of €1 million.

General and administrative expenses
At €44 million, general and administrative expenses were on previous year's level (Q1 2017: €45 million). Both personnel and non-personnel expenses remained almost flat.

Expenses from bank levies and similar dues
Expenses from bank levies and similar dues (€–21 million; 3m 2017: €–22 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€20 million; Q1 2017: €20 million); the charge had to be recognised for the entire year in the first quarter. Furthermore, this line item comprised expenses of €1 million (Q1 2017: €2 million) for the Deposit Protection Fund.

Net income from write-downs and write-ups on non-financial assets
Net income from write-downs and write-ups on non-financial assets (€–3 million; Q1 2017: €–3 million) resulted from depreciation of property and equipment, and amortisation of intangible assets.

Net income from provisions
Net income from provisions (€–1 million; Q1 2017: €–7 million) was predominantly due to new provisions recognised for legal expenses.

Income taxes
As in the same period of the previous year, income taxes (€9 million; Q1 2017: €9 million) were due exclusively to current taxes.

4. **Consolidated total assets** (in accordance with IFRS, unaudited)

Total assets declined by €0.5 billion compared to 1 January 2018 (IFRS 9). This was attributable in particular to market-induced fair value adjustments, which led to a decline in hedging derivatives. Furthermore, the cash reserve decreased given the disbursement of real estate financings. In addition, financial assets measured at fair value through profit or loss declined due to maturities and placements.

5. **Regulatory capital ratios** (in accordance with IFRS, unaudited, partially including Q1 results; fully-phased-in)

Risk-weighted assets were down slightly during the first quarter of 2018, from €14.5 billion to €14.2 billion, due particularly to changes in the underlying model parameters used for calculation. At the same time, pbb's capital base rose, as a result of the first-time application of IFRS 9, by €0.1 billion to €3.3 billion: all of pbb's regulatory ratios were therefore higher at the end of March 2018 than at the year-end 2017. An AT1 bond issued on 13 April is not yet included in these ratios.

- The CET1 ratio and the Tier 1 ratio both stood at 18.8% at the end of March 2018 (12/2017: 17.6%).
- The Own Funds Ratio rose to 23.5% at the end of March 2018 (12/2017: 22.2%).
- The Leverage Ratio also increased slightly, to 4.8% (12/2017: 4.5%).

Consolidated Income Statement of pbb Group (in accordance with IFRS; 2017: audited / Q1 2018: unaudited; € million)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	Q1 2018
Net interest income	97	99	102	109	407	107
Net fee and commission income	3	2	1	2	8	1
Net income from fair value measurement	-2	2	-4	-1	-5	-
Net income from realisations	9	13	9	14	45	9
Hedge result	1	-	-1	-1	-1	-1
Net other operating income/expenses	16	3	-1	5	23	-3
Operating income	**124**	**119**	**106**	**128**	**477**	**113**
Net income from risk provisioning	-	-	-3	-7	-10	4
General and administrative expenses	-45	-47	-49	-58	-199	-44
Expenses from bank levies and similar dues	-22	-3	-2	-1	-28	-21
Net income from write-downs and write-ups on non-financial assets	-3	-5	-3	-3	-14	-3
Net income from provisions	-7	-8	2	-9	-22	-1
Pre-tax profit/loss	**47**	**56**	**51**	**50**	**204**	**48**
Income taxes	-9	-9	-10	6	-22	-9
Profit/loss after taxes	**38**	**47**	**41**	**56**	**182**	**39**

Overview of the pbb Group

	Q1 2017	**Q1 2018**
Key financial indicators		
Earnings per share (€)	0.28	0.29
Cost/income ratio (in %)	39	42
Return on equity before taxes (%)	6.7	6.7
Return on equity after taxes (%)	5.4	5.4
	31 Dec 2017	**31 Mar 2018**
Statement of financial position (in accordance with IFRS)		
Total assets (€ bn)	58.0	57.6
Financing volume (€ bn)	45.7	46.3
Equity (€ bn)	2.9	3.0
Regulatory indicators[1)]		
CET1 ratio (%)	17.6	18.8
Own Funds Ratio (%)	22.2	23.5
Leverage Ratio (%)	4.5	4.8

1) Ratios are 'fully phased-in', with partial inclusion of the quarterly results

ANNEX
Explanations on the structure of the income statement

The individual items of the income statement comprise the following:

- **Net interest income** primarily includes current interest income and expenses, but no gains or losses from the disposal of financial assets or the early redemption of liabilities, as well as no early termination fees. The item also does not comprise additions and reversals of provisions that are similar to interest.
- **Net fee and commission income**, which is unchanged from the previous presentation method, shows the non-accruable fees.
- **Net income from fair value measurement** (net income from financial instruments at fair value through profit or loss) includes the changes in the fair value of stand-alone derivatives and of non-derivative financial assets that are required to be accounted for at fair value due to the cash flow criterion and the business model criterion set out in IFRS 9.
- **Net income from realisations** (net income from derecognition of financial instruments not measured at fair value through profit or loss) includes gains or losses from the disposal of financial assets, e.g. within the framework of sales of financial assets, redemptions of liabilities, early termination fees or modifications, including derecognition of the previous financial instrument and recognition of the modified financial instrument.
- **Net income from hedge accounting**, which is unchanged from the previous presentation method, includes ineffective portions within the permitted range.
- **Net other operating income** consists of components of the previous net other operating income, such as rental income, effects from the disposal of non-financial instruments, or from currency translation. The item no longer includes expenses for the bank levy as well as additions and reversals of provisions.
- **Net income from risk provisioning** (net gains/losses from allowances on financial assets) comprises additions and reversals of allowances of all three levels in relation to all financial receivables not measured at fair value through profit or loss as well as on securities. Additions and reversals of allowances for loans and advances were previously reported in the item “Loan loss provisions”, while those for securities were shown under net income from financial investments.
- **Net gains/losses from modifications of financial instruments** include effects from modifications that do not lead to a derecognition of the previous financial instrument, and a recognition of the modified financial instrument.
- **General and administrative expenses** remain largely unchanged compared to the previous presentation method. However, depreciation, amortisation, impairment losses and reversals of impairment losses in relation to non-financial assets are no longer included in this item.
- **Expenses from bank levies and similar dues** mainly consist of expenses for bank levies and deposit protection.
- **Net income from write-downs and write-ups on non-financial assets** comprises depreciation, amortisation, impairment losses and reversals of impairment losses in relation to non-financial assets.
- **Net income from provisions** includes additions and reversals of provisions.