# Good start into 2018 with PBT of EUR 48 mn in Q1/18

## Results Q1/18

## Press Briefing, 14 May 2018

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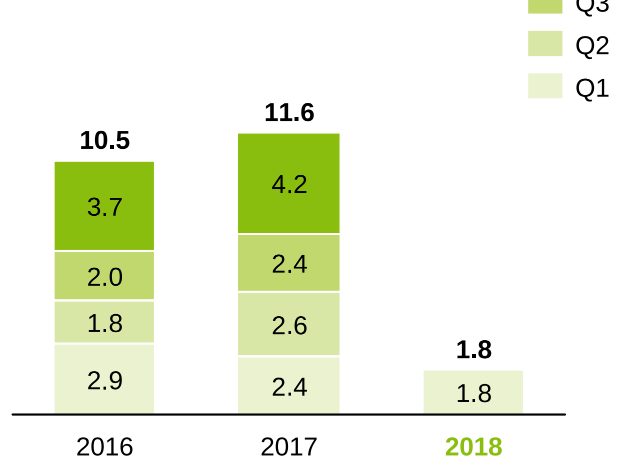
# Highlights

## Operating and financial overview

Figures for 2017 and Q1/18 based on new reporting structure (IFRS9)

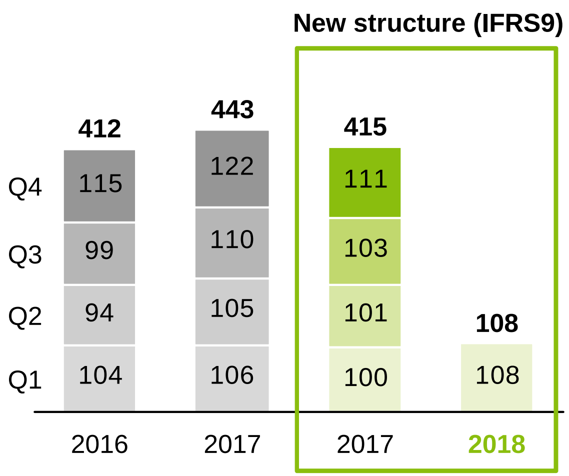
### New business

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



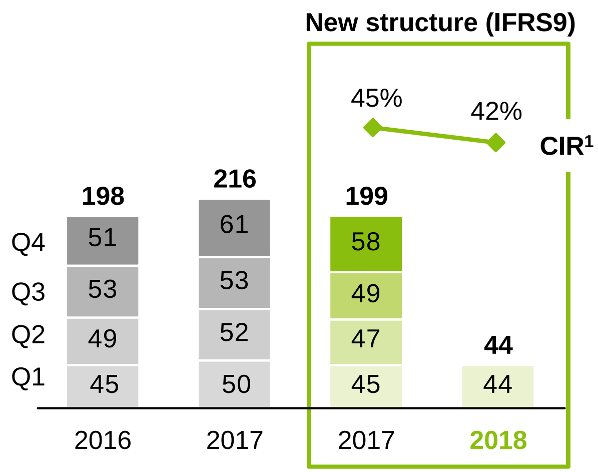

### Net interest and commission income

EUR millions (IFRS)



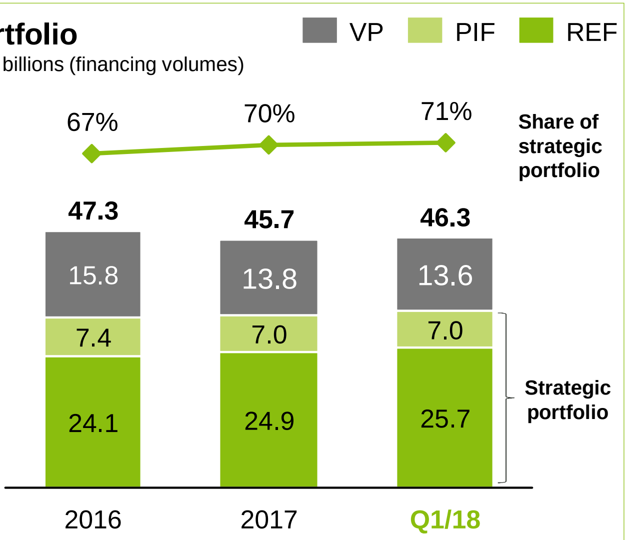

### General and admin. expenses

EUR millions (IFRS)



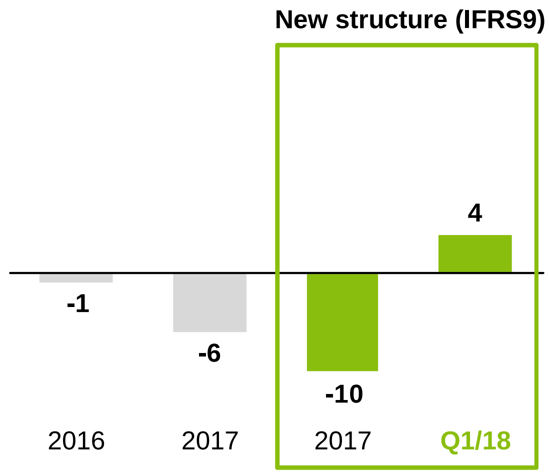

### Portfolio

EUR billions (financing volumes)



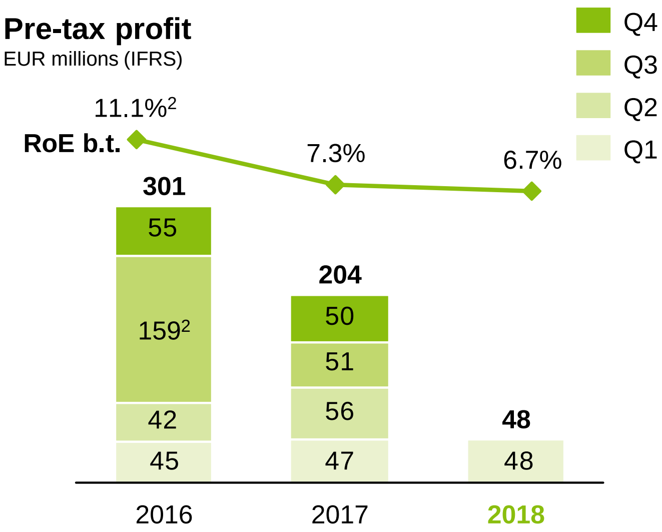

### Net result from risk provisions

EUR millions (IFRS)




### Pre-tax profit

EUR millions (IFRS)




Note: Figures may not add up due to rounding 1 New definition: CIR = (GAE + net income from write-downs and write-ups on non-financial assets)/operating income 2 Incl. EUR +132 mn extraordinary gain from value adjustments on HETA exposure

# Changes in financial reporting

## New structure following IFRS9 implementation – major changes

indicative only

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### Income statement Former structure (IAS 39) (EUR mn)

| | Q1/17 | FY17 |
|---|---|---|
| **Net interest income** | **103** | **435** |
| Net income from financial investments | 1 | -4 |
| Net other operating income | -8 | -9 |
| **Loan loss provisions** | **-2** | **-6** |
| **General and administrative expenses** | **-50** | **-216** |

### Major changes

- Early repayments and provisions related to interest
- Early repayments
- Provisions on securities
- Bank levy and other non-risk provisions
- Provisions on loans and securities
- Depreciations and deposit protection scheme
- Depreciations
- Bank levy and deposit protection scheme
- Provisions related to interest and other non-risk provisions

### Income statement New structure (IFRS9) (EUR mn)

| Q1/17 | FY17 | Q1/18 | |
|---|---|---|---|
| **97** | **407** | **107** | **Net interest income** |
| 9 | 45 | 9 | Net income from realisations |
| **-** | **-10** | **4** | **Net income from risk provisioning** |
| **-45** | **-199** | **-44** | **General and administrative expenses** |
| -3 | -14 | -3 | Net income from write-downs and write-ups on non-financial assets |
| -28 | -28 | -21 | Expenses from bank levies and similar dues |
| -7 | -22 | -1 | Net income from provisions |

# Income statement (new structure)

## NII up +10% y-o-y, mainly benefitting from reduced funding costs

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### Income from lending business

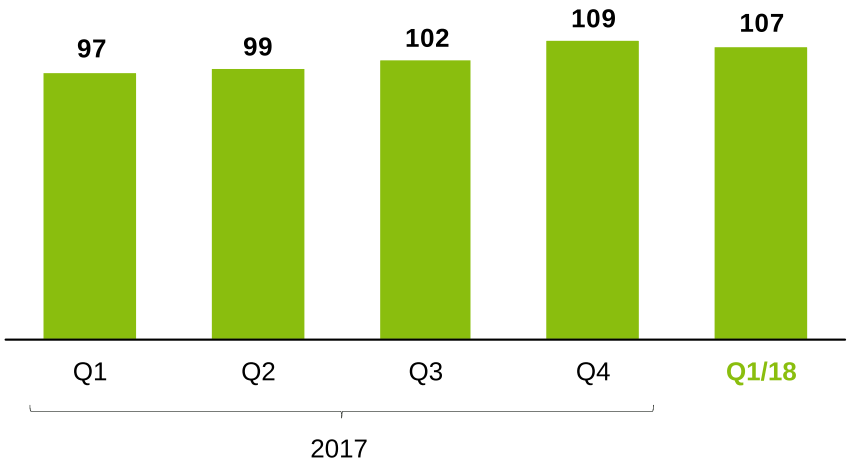
EUR millions

| | Q1/17 | Q4/17 | Q1/18 |
|---|---|---|---|
| Net interest income | 97 | 109 | 107 |
| Net fee and commission income | 3 | 2 | 1 |

| | Q1/17 | Q4/17 | Q1/18 |
|---|---|---|---|
| Net income from realisations | 9 | 14 | 9 |

### Net interest income

EUR millions




***Key drivers Q1/18:***

- NII continues to benefit from solid underlying drivers
  - Avg. strategic financing volume slightly up to EUR 32.3 bn (2017: EUR 31.8 bn, Q1/17: EUR 31.7 bn)
  - Funding costs down y-o-y due to maturities at legacy costs and lower spreads on new refinancing
- However, NII continues to be negatively influenced by following major base effects:
  - Margin pressure
  - Value Portfolio run-down
  - Low(er) returns from (re)-investments of liquidity/equity book
- Stable net income from realisations y-o-y mainly driven by
  - prepayment fees (EUR +4 mn, Q4/17: EUR +10 mn, Q1/17: EUR +8mn)
  - realisation of fees and/or redemption of liabilities (EUR +5 mn; Q4/17: EUR +4mn, Q1/17: EUR +1 mn)

# Income statement (new structure)

## No net additions to risk provisions required reflecting overall market environment and continued risk conservative business approach

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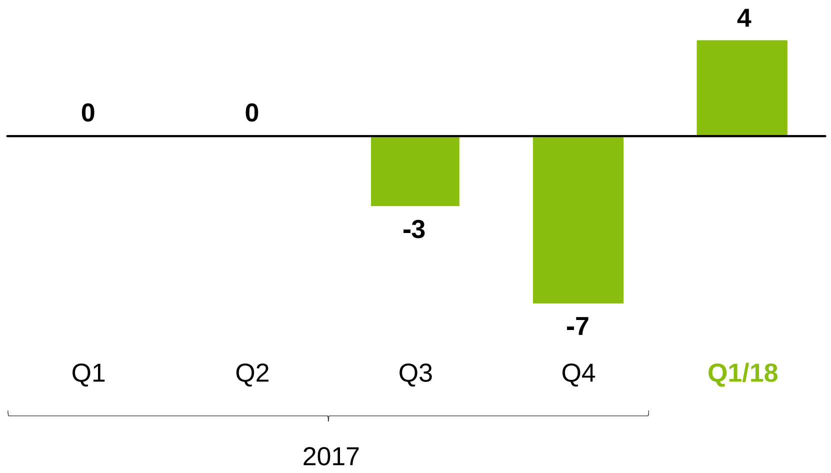
### Net income from risk provisioning

EUR millions

| | Q1/17 | Q4/17 | Q1/18 |
|---|---|---|---|
| Net income from risk provisioning | - | -7 | 4 |
| thereof | | | |
| *stage 1* | n/a | | *1* |
| *stage 2* | | | *4* |
| *stage 3* | | | *-1* |




***Key drivers Q1/18:***

- IAS 39 Incurred Loss Model to be replaced by IFRS9 Expected Credit Loss Model with 3 stage logic:
  - Stage 1: impaired with 1 year expected credit loss
  - Stage 2 and 3: impaired with lifetime expected credit loss
  - Scenarios to be taken into account
- Net release of provisions in stage 1 and 2 of EUR 5mn primarily driven by maturity effects from assets maturing within the next 12 months; net additions in stage 3 of EUR 1mn
- Slight increase of stage 3 coverage ratio (new definition)[1] to 23.1% (12/17: 22.3%)
- Coverage ratio does not take into account additional collateral – incl. these factors, REF coverage ratio at approx. 100%

1 Coverage ratio = credit loss allowances on financial assets in stage 3 / gross book values in stage 3 (loans and securities)

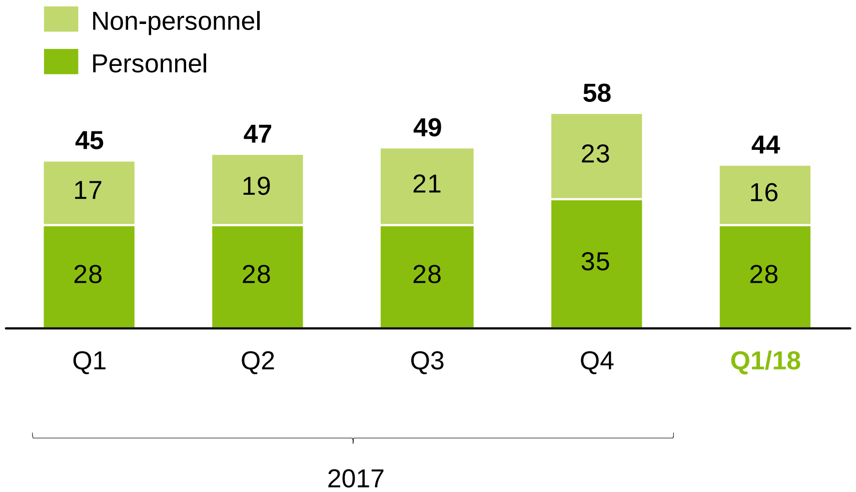
# Income statement (new structure)

## Operating costs on typically low level in Q1 – regulatory costs and strategic investments will continue to weigh on overall cost level going forward

### General & administrative expenses and depreciations

EUR millions

| | Q1/17 | Q4/17 | Q1/18 |
|---|---|---|---|
| General admin. expenses | -45 | -58 | -44 |
| *Personnel* | *-28* | *-35* | *-28* |
| *Non-personnel* | *-17* | *-23* | *-16* |
| Net income from write-downs and write-ups on non-financial assets | -3 | -3 | -3 |
| *CIR (%)[1]* | *38.7* | *47.7* | *41.6* |




1 CIR = (GAE+ net income from write-downs and write ups on non-financial assets)/operating income

*Key drivers Q1/18:*

- GAE stable y-o-y, in line with expectations
- All in all, costs remain under control – FTEs down to 733 FTE (12/17: 744 FTE; 03/17: 739 FTE)
- Regulatory costs and strategic investments (e.g. further digital transformation) will continue to weigh on overall cost level going forward
- Balanced net income from write-downs and write-ups on non-financial assets – scheduled depreciations on tangible and intangible assets

# New business & segment reporting

## REF: Solid level of new business with improved margins – continued focus on conservative risk positioning

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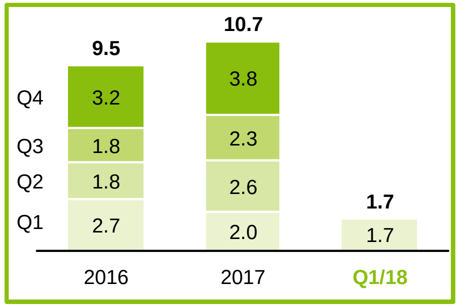
| New business | Q1/17 | 2017 | Q1/18 |
|---|---|---|---|
| Total volume (EUR bn) | 2.0 | 10.7 | 1.7 |
| *thereof: Extensions >1 year* | *0.3* | *1.9* | *0.2* |
| No. of deals | 48 | 221 | 34 |
| Ø maturity (years)[1] | ~5.6 | ~5.3 | 4.6 |
| Ø LTV (%)[2] | 62 | 60 | 62 |
| Ø gross margin (bp) | >160 | >155 | >170 |



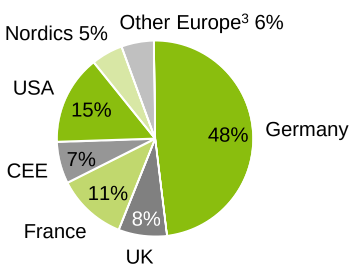

| Income statement (IFRS, EUR mn) | Q1/17[5] | Q4/17[5] | Q1/18 |
|---|---|---|---|
| Operating income | 93 | 103 | 96 |
| *thereof: Net interest income* | *81* | *87* | *89* |
| Net income from risk provisioning | -2 | -4 | - |
| General administrative expenses | -36 | -46 | -35 |
| Net other income/expenses | -17 | -9 | -14 |
| **Pre-tax profit** | **38** | **44** | **47** |
| **Key indicators** | **Q1/17** | **Q4/17** | **Q1/18** |
| CIR (%)[4] | 40.9 | 46.6 | 38.5 |
| RoE before tax (%) | 13.8 | 14.7 | 14.5 |
| Equity (EUR bn) | 1.1 | 1.2 | 1.4 |
| RWA (EUR bn) | 6.3 | 8.3 | 8.1 |
| Financing volume (EUR bn) | 24.1 | 24.9 | 25.7 |

**Regions**

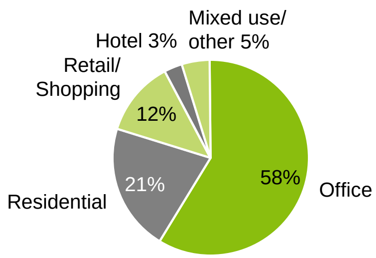
**Property types**

**New business** (Commitments, incl. extensions > 1year)

**Q1/18: EUR 1.7 bn**

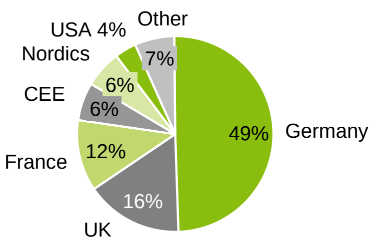



**Q1/18: EUR 1.7 bn**

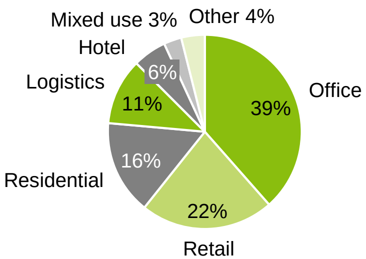



**Portfolio** (EaD, Basel III)

**31/03/18: EUR 28.6 bn**




**31/03/18: EUR 28.6 bn**




### *Key drivers Q1/18:*

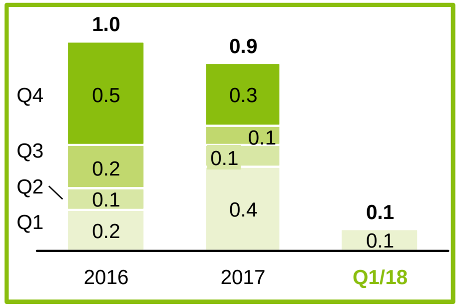
- New business volume on solid level with improved avg. gross margin and stable risk profile
  - High competition and margin pressure, but continued focus on conservative risk positioning (avg. LTV 62%)
  - Changes to regional and product mix (e.g. UK down, US up, higher Office and Residential, lower Retail/Shopping)
- Financing volume +6.6% y-o-y due to strong new business in 2017 and lower level of prepayments in Q1/18
- RWA increase y-o-y reflects effects from ECB harmonisation of risk models in Q3/17
- Financial performance mainly driven by strong NII, no net additions to risk provisions and low level of GAE
- Main impacts from change in allocation: Higher operating income mainly reflecting new allocation of prepayment fees and income from equity investments resulting from higher allocated equity

Note: Figures may not add up due to rounding
1 Legal maturities 2 New commitments; avg. LTV (extensions): Q1/18: 68%, Q1/17: 44% 3 Spain 4 CIR = (GAE + net income from write-downs and write ups on non-financial assets)/operating income 5 Adjusted acc. to IFRS 8.29

# New business & segment reporting

## PIF: Strong competition weighs on new business volume and margins – low volume in Q1/18 not representative

| New business | Q1/17 | 2017 | Q1/18 |
|---|---|---|---|
| Total volume (EUR bn) | 0.4 | 0.9 | 0.1 |
| No. of deals | 7 | 30 | 3 |
| Ø maturity (years)[1] | ~8.9 | ~8.7 | ~7.9 |
| Ø gross margin (bp) | >90 | >100 | ~60 |

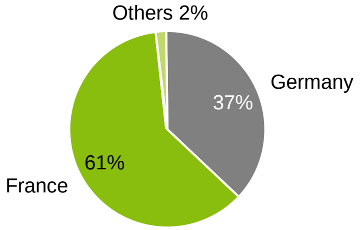



| Income statement (IFRS, EUR mn) | Q1/17[3] | Q4/17[3] | Q1/18 |
|---|---|---|---|
| Operating income | 6 | 6 | 7 |
| *thereof: Net interest income* | *7* | *8* | *8* |
| Net income from risk provisioning | 1 | -5 | 2 |
| General administrative expenses | -6 | -8 | -6 |
| Net other income/expenses | -5 | -1 | -4 |
| **Pre-tax profit** | **-4** | **-8** | **-1** |
| **Key indicators** | **Q1/17** | **Q4/17** | **Q1/18** |
| CIR (%)[2] | >100 | >100 | 100.0 |
| RoE before tax (%) | -16.0 | -21.3 | -2.0 |
| Equity (EUR bn) | 0.1 | 0.2 | 0.2 |
| RWA (EUR bn) | 1.4 | 1.6 | 1.6 |
| Financing volume (EUR bn) | 7.7 | 7.0 | 7.0 |

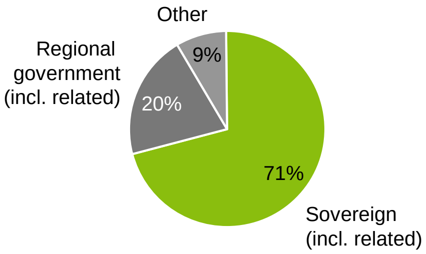
**Regions** | **Borrower classification**

**New business** (Commitments)

**Q1/18: EUR 0.1 bn**

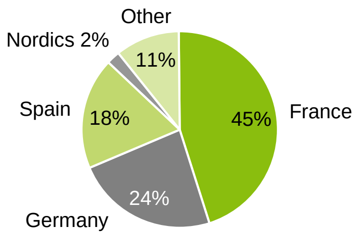



**Q1/18: EUR 0.1 bn**

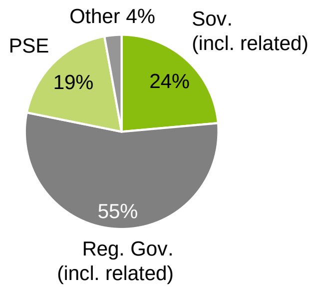



**Portfolio** (EaD, Basel III)

**31/03/18: EUR 7.9 bn**




**31/03/18: EUR 7.9 bn**




### *Key drivers Q1/18:*

- PIF remains contribution business with ~20% direct costs vs. ~80% allocated overhead (allocation based on financing volume)
- Financing volume down y-o-y due to maturities
- Main impacts from change in allocation: Lower operating income due to new allocation of prepayment fees and income from equity investments resulting from lower allocated equity

Note: Figures may not add up due to rounding 1 Weighted average lifetime 2 CIR = (GAE + net income from write-downs and write ups on non-financial assets)/operating income 3 Figures adjusted acc. to IFRS 8.29

# Funding

## Stable, diversified funding profile – further reduction of funding costs in Q1/18

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### New long-term funding[1]

EUR billions


*Pfandbriefe*

- Mortgage Pfandbriefe: EUR 250 mn tap issued in January 2018 and EUR 750 mn benchmark issued in March 2018

*Senior Unsecured*

- EUR 500 mn 4y benchmark issued in January 2018 and continuous private placements in Q1/2018
- EUR 20 mn senior preferred issued

*AT1*

- Inaugural EUR 300 mn Tier 1 (AT1) issuance in April 2018 optimizing capital structure and strengthening leverage ratio

*pbb direkt*

- Total volume stable at EUR 3.2 bn (12/17: EUR 3.3 bn); average maturity[5] 3.2 years (12/17: 3.1 yrs)

*MREL*

- Comfortable volume of MREL eligible items (EUR ~11 bn, thereof EUR ~7.7 bn senior unsecured)[6] allows for primary focus on preferred issuances going forward

*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 retail deposit business 2 Excl. Tier 2 issuances 3 vs. 3M Euribor 4 Initial weighted average maturity 5 Initial weighted average maturity of term deposits 6 Based on pbb preliminary calculation

# Capital

## Capitalisation remains strong - positive IFRS9 first-time application effect

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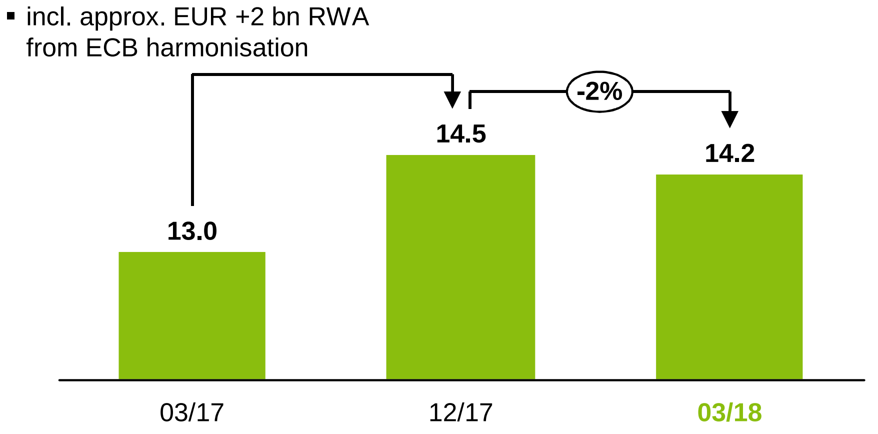
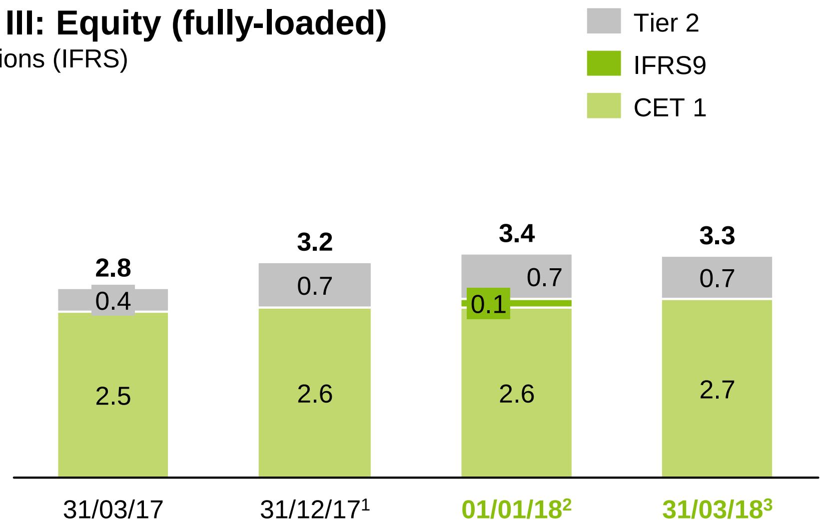
### Basel III: RWA

EUR billions (IFRS)




### Basel III: Equity (fully-loaded)

EUR billions (IFRS)




### Basel III: Capital ratios (fully-loaded)

% (IFRS)

| in % | 03/17[2] | 12/17[1] | 03/18[2] | Ambition levels |
|---|---|---|---|---|
| CET 1 | 19.2 | 17.6 | 18.8 | ≥12.5 |
| Tier 1 | 19.2 | 17.6 | 18.8 | ≥16 |
| Own funds | 21.9 | 22.2 | 23.5 | 16-18 |
| Leverage ratio | 4.3 | 4.5 | 4.8 | ≥3.5 |

***Key drivers Q1/18:***

- RWA down by EUR -0.3 bn mainly due to LGD changes
- Capital up due to positive IFRS9 first-time application effect
- pbb retains capital buffers for further RWA challenges: regulation (TRIM/Basel IV), potential strategic growth and cyclical risks and/or strategic measures

***IFRS9:***

- EUR 109 mn IFRS9 first-time application effect in IFRS capital
  - Negative effects from impairments (EUR -32 mn before deferred tax)
  - Positive effects from classification & measurements (EUR 158 mn before deferred tax)

***SREP:***

- SREP requirements 2018[4]:
  - CET 1 ratio phase-in: 9.325% / fully-loaded: 9.95%
  - Own funds ratio phase-in: 12.825% / fully loaded: 13.45%

Note: Figures may not add up due to rounding 1 Incl. full-year result, post proposed dividend 2 IFRS9 first-time application effect 3 Post proposed dividend for 2017, incl. interim result, post max. calc. dividend acc. to ECB methodology 4 Incl. capital conservation buffer (1.875%) and anticipated countercyclical buffer (0.2%; actual as of 31.12.2017: 0.11%)

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