News

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pbb's profit before taxes for the first half of 2018 rises by 18%, to reach €122 million

- Strong half-year earnings performance especially supported by higher net interest income of €220 million
- Non-recurring income from Heta conditional additional purchase price adjustment
- General and administrative expenses decline further, to €88 million
- Net income from risk provisioning positive, at €7 million, thanks to net releases
- Expediting the digitalisation process at pbb

Munich, 13 August 2018 – pbb Deutsche Pfandbriefbank generated consolidated profit before taxes of €122 million in the first half of 2018, outperforming the same period of the previous year by 18% (H1 2017: €103 million; consolidated, unaudited figures in accordance with IFRS). This positive development was supported by higher net interest income of €220 million (H1 2017: €196 million), slightly lower general and administrative expenses (€88 million; H1 2017: €92 million), and €7 million in net releases of risk provisions (H1 2017: €0 million). Results for the second quarter were particularly strong, with profit before taxes rising by more than 30% year-on-year, to €74 million (Q2 2017: €56 million). This included a non-recurring income from a conditional additional purchase adjustment in connection with Heta debt securities in 2016. New business declined in line with expectations to €3.8 billion (H1 2017: €5 billion; new business including extensions by more than one year): this is because pbb has maintained its selective stance in financing markets, which continue to experience strong competition.

At the beginning of July, pbb had already indicated expected profit before taxes for the first half of the year to the tune of €120 million, raising its previous full-year guidance for profit before taxes of between €150 million and €170 million to between €175 million and €195 million. pbb's new guidance includes, as planned, increased pressure on net interest income together with an increase in general and administrative expenses; furthermore, pbb factors in estimated risk costs for the full year.

CEO **Andreas Arndt** said: "With good net interest income and low risk cost, operating performance provided the basis for good results for the first half of 2018, which additionally benefited from non-recurring income. We have therefore raised our guidance for the full year 2018, even though our conservative assumptions for the second half of the year – in terms of net interest income, general and administrative expenses, and risk costs – remain unchanged. We also maintain our conservative stance regarding expected developments on the commercial real estate finance markets."

pbb made further progress in its digitalisation efforts: in April, the Bank rolled out a portal site for the efficient exchange of data and information with Commercial Real Estate Finance clients, followed by the launch of the CAPVERIANT platform for loans to local authorities in May. pbb sees CAPVERIANT as a 'fintech within the Bank' – with processes aligned to regulatory standards for banks. The Bank plans to swiftly add additional functionality to the platform, and to prepare a launch in France. Furthermore, pbb established a new organisational framework for the issue of digitalisation and allocated additional resources. A separate division titled Digitalisation will be supporting market-facing divisions as well as IT in connection with digitalisation initiatives. A Digitalisation Board, which comprises a cross-section of participants from the entire Bank, is now supporting the investment process.

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FACTS AND FIGURES FOR THE FIRST HALF OF 2018
(consolidated figures in accordance with IFRS)

1. New business

Commercial Real Estate Finance accounted for €3.6 billion (H1 2017: €4.5 billion, new business including extensions by more than one year) of aggregate new business in the amount of €3.8 billion (H1 2017: €5.0 billion); €0.2 billion (H1 2017: €0.5 billion) was originated in Public Investment Finance. Some transactions in PIF were postponed, meaning that the pipeline is well-stocked.

Like in the same period of the previous year, Germany accounted for some 50% of new Real Estate Finance business. The share of US business rose from 11% in the first half of 2017 to 13% in the period under review. France and the UK accounted for around 10% each, whereby the share of UK business declined year-on-year. In terms of property type, the main focus of new business was on office properties, whose share increased to 51% (H1 2017: 46%).

The average gross margin on new REF business stood at over 160 basis points in the first half of 2018 (H1 2017: >165 bp).

2. Funding

During the first half of 2018, pbb raised new long-term funding of €3.0 billion (H1 2017: €4.0 billion). Pfandbriefe accounted for approximately €1.9 billion (H1 2017: €2.3 billion), unsecured issues for an additional €1.0 billion (H1 2017: €1.7 billion). Furthermore, pbb raised additional tier 1 capital (AT1 capital) in the amount of €0.3 billion. As in the past, pbb not only issued securities denominated in Euro, but also in Pound Sterling and Swedish Krona.

Issuance spreads – were markedly lower than in the first half of 2017, both for covered and uncovered issues.

3. Regulatory indicators

Regulatory indicators at the end of the first half of 2018 improved compared to the 2017 year-end. Specifically, the first-time application of IFRS 9 had an impact on equity, together with the further reduction in risk-weighted assets; the tier 1 ratio and the Own Funds Ratio benefited from the issue of additional tier 1 (AT1) capital. The CET1 ratio as at 30 June 2018 rose to 19.4% (31 Dec 2017: 17.6% – ratios as of 31 Dec 2017 'fully phased-in"), Tier 1 ratio to 21.5% (31 Dec 2017: 17.6%), and the Own Funds Ratio to 26.3% (31 Dec 2017: 22.2%). The Leverage Ratio increased to 5.3% (31 Dec 2017: 4.5%).

4. Income statement

Net interest income increased to €220 million (H1 2017: €196 million). This positive development was due to lower interest expenses, which reflected maturities of higher-yielding liabilities. At €32.3 billion, the average interest bearing financing volumes in Commercial Real Estate Finance and Public Investment Finance in the first half of 2018 exceeded the level of the previous year (H1 2017: €31.8 billion), whereas the average volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy (€13.6 billion; H1 2017: €15.3 billion). The average margin of the total portfolio was stable relative to the first half of 2017.

Net fee and commission income from non-accruable fees amounted to €3 million (H1 2017: €5 million).

Net income from fair value measurement totalled €4 million (H1 2017: €0 million). The positive result was due to changes in the fair value of derivatives and from non-derivative financial instruments which must be measured at fair value. Income from non-derivative financial instruments comprises the measurement income from the Heta conditional additional purchase price adjustment and expenses from the changes in the credit ratings of southern European borrowers.

Net income from realisations (€15 million; H1 2017: €22 million) comprised prepayment fees of €8 million (H1 2017: €16 million), fee realisations of €5 million (H1 2017: €4million), and redemption of liabilities of €2 million (H1 2017: €1 million).

Net income from hedge accounting of €–2 million (H1 2017: €1 million) was due exclusively to ineffective portions from micro fair value hedges. pbb Group exercised the option available under IFRS 9 and continued to apply the hedge accounting rules of IAS 39.

Net other operating income of €–8 million (H1 2017: €4 million) comprised expenses from net additions provisions recognised for legal expenses and risks of €6 million (H1 2017: €15 million) and currency translation expenses in the amount of €2 million (H1 2017: €1 million). The result for the same period of the previous financial year benefited from income generated in connection with the sale of assets held in pbb’s non-strategic Value Portfolio.

Net income from risk provisioning (€7 million; H1 2017: €0 million) mainly resulted from net reversals of stage 1 and 2 allowances in the amount of €9 million, which were due to holdings in the portfolio set to expire in the short term. These effects were partly offset by net additions to stage 3 impairments of €2 million.

General and administrative expenses were reduced slightly, to €88 million (H1 2017: €92 million). While non-personnel expenses were lower thanks to the successful conclusion of projects, personnel expenses remained constant.

Expenses from bank levies and similar dues (€22 million; H1 2017: €25 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€20 million; H1 2017: €19 million). Furthermore, this line item comprised expenses of €2 million (H1 2017: €5 million) for the private and the statutory deposit protection scheme. Expenses were lower than in the prior-year period, due to the change in the basis for calculation and the fact that pledged collateral of 30% was included for the first time.

Net income from write-downs and write-ups on non-financial assets (€–7 million; H1 2017: €–8 million) resulted primarily from depreciation of tangible assets, and amortisation of intangible assets.

This led to **profit before taxes** of €122 million, which clearly exceeded the results for the first half of 2017 (€103 million).

Income taxes (€–23 million (H1 2017: €–18 million) resulted from a current tax expense of €22 million (H1 2017: €22million) and a deferred tax expense in the amount of €1 million (H1 2017: tax income of €4 million).

Profit after taxes amounted to €99 million, compared with €85 million for the first half of 2017.

Consolidated Income Statement of pbb Group
(in accordance with IFRS, € million)

	Q1 17	Q2 17	H1 17	Q1 18	Q2 18	H1 18
Net interest income	97	99	196	107	113	220
Net fee and commission income	3	2	5	1	2	3
Net income from fair value measurement	-2	2	-	-	4	4
Net income from realisations	9	13	22	9	6	15
Net income from hedge accounting	1	-	1	-1	-1	-2
Net other operating income/expenses	9	-5	4	-4	-4	-8
Operating income	**117**	**111**	**228**	**112**	**120**	**232**
Net income from risk provisioning	-	-	-	4	3	7
General and administrative expenses	-45	-47	-92	-44	-44	-88
Expenses from bank levies and similar dues	-22	-3	-25	-21	-1	-22
Net income from write-downs and write-ups on non-financial assets	-3	-5	-8	-3	-4	-7
Profit before taxes	**47**	**56**	**103**	**48**	**74**	**122**
Income taxes	-9	-9	-18	-9	-14	-23
Profit after taxes	**38**	**47**	**85**	**39**	**60**	**99**

Overview of the pbb Group

Key financial indicators (%)	Q1 17	Q2 17	H1 17	Q1 18	Q2 18	H1 18
Cost/income ratio	41.0	46.8	43.9	42.0	40.0	40.9
Return on equity before taxes	6.7	8.0	7.4	6.7	10.0	8.2
Return on equity after taxes	5.4	6.7	6.1	5.4	8.1	6.7

Balance sheet figures (IFRS/€ bn)	03/17	06/17	06/17	03/18	06/18	06/18
Total assets	61.2	60.7	60.7	57.6	57.8	57.8
Equity	2.9	2.9	2.9	3.0	3.2	3.2
Total financing volume	47.3	46.6	46.6	46.3	45.9	45.9

Note:
All quarterly figures quoted in this press release are unaudited, whilst figures for the first half of the financial year are audited.

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