Media Release

DEUTSCHE PFANDBRIEFBANK

pbb's profit before taxes 2018 rises by 5%, to €215 million

- Aggregate of net interest and commission income increased significantly, to €456 million
- Risk provisioning and general administrative expenses remained stable in the year under review
- New business amounted to €10.5 billion, of which €9.5 billion was generated in Commercial Real Estate Finance, with a stable average gross margin of approx. 155 bp
- Management and Supervisory Boards will propose a dividend of €1.00 per share to the Annual General Meeting – dividend yield of 11.4%
- pbb anticipates a good result for 2019, albeit retaining a cautious stance: profit before taxes is expected at between €170 million and €190 million, and new business in the REF segment at €8.5 billion to €9.5 billion
- Investments into US business and digitalisation to be financed internally, through centralisation of tasks and repositioning of the PIF business

Munich, 28 February 2019 – Deutsche Pfandbriefbank AG (pbb) has concluded the 2018 financial year with profit before taxes of €215 million, therefore exceeding the previous year's figure by around 5% (2017: €204 million; consolidated figures in accordance with IFRS). In an environment that remained challenging throughout, the good result was driven by stable income in the lending business and lower funding expenses, as well as by continued low risk costs and a strict cost management regime. As a result, Management Board and Supervisory Board will propose to the Annual General Meeting the distribution of a dividend of €1.00 per share entitled to dividends, meaning that ordinary equity holders would receive approximately 81% of the consolidated profit after taxes of €167 million attributable to them. Based on the Xetra year-end closing price, this would imply a dividend yield of 11.4%.

In 2018, pbb increased its most important source of income, the aggregate of net interest and commission income, by 10% to €456 million (2017: €415 million) – driven by an expansion of the interest-bearing portfolio in Commercial Real Estate Finance (+8%, €26.8 billion) and stable average gross margins on new business of approximately 155 basis points (bps). Overall, pbb generated a new business volume of €10.5 billion (2017: new business of €11.6 billion, REF: including extensions of more than one year). On the liabilities side, reduced funding needs and new issues at improved funding conditions led to lower interest expenses, hence contributing to a significantly higher net interest income.

Net income from risk provisioning was largely stable, with net additions up by €4 million to €14 million, whilst general administrative expenses declined to €193 million (2017: €199 million).

CEO **Andreas Arndt** said: "By applying our stringent risk standards, we generated good volume of new business in a challenging market environment. Our funding activities were equally successful. At the same time, we were able to keep costs at a low level. Thanks to our operating strength, we once again managed to achieve a good result for our shareholders, whom we want to pay a dividend of €1.00 per share."

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Outlook 2019

pbb anticipates another good result in 2019. At the same time, the Bank will adhere to its cautious stance and conservative risk policy, given the challenging market and competitive environment in commercial real estate finance. Accordingly, the Bank thus endeavours new **Commercial Real Estate Finance** business between €8.5 billion and €9.5 billion (including extensions by more than one year), with the upper end of the guidance matching the volume of new business originated in 2018. pbb anticipates **pre-tax profit** in a range between €170 million and €190 million, expecting a slightly lower **net interest and commission income**.

Alongside the expansion of the US business, pbb will also focus on digitalisation in 2019. This includes the planned launch of a client portal, and the further expansion of the CAPVERIANT platform for municipal financing.

The Bank will offset expenses for investments to advance digitalisation, and to expand the US business by corresponding cost savings – by relocating tasks from satellite locations to the head office, in order to enhance efficiency, and rescaling the business in Public Investment Finance. **Andreas Arndt** said: “By continuing to focus, we will finance investments for pbb’s future, and thus also new tasks and new job positions.”

FACTS AND FIGURES – 2018
(consolidated figures in accordance with IFRS)

1. New business

Of the entire new business volume (€10.5 billion), €9.5 billion was generated in Commercial Real Estate Finance (2017: €11.6 billion, REF: €10.7 billion, in each case including extensions of more than one year). New Public Investment Finance business totalled €1.0 billion (2017: €0.9 billion).

On the back of ongoing tough competition, its risk-conservative approach, and the very mature real estate cycle, pbb had in fact planned this decline of new business in commercial real estate financing. However, in contrast to expectations, the Bank was able to largely preserve its gross margin on new business, at approximately 155 basis points (2017: >155 bps).

Regarding new business originated in different regions and for different types of real estate, nothing much changed; however, the proportions shifted.

- Germany remained the biggest individual market for pbb's Real Estate Finance segment, albeit accounting for a lower share in new business of 40% (2017: 49%). Germany's share in the portfolio declined only marginally, from 49% to 47%.

- pbb reduced its share of new business generated in the United Kingdom due to the uncertainty arising from Brexit: whereas the United Kingdom accounted for a share of 13% or €1.4 billion in 2017, in the year under review it only amounted to 11% or €1 billion. Since 2016, pbb reduced the share of new business originated in the United Kingdom by 7 percentage points.

- pbb further expanded its business in some US sub-markets, which accounted for a 13% share during the period under review (2017: 8%).

- In terms of property type, the main focus of new business was on office properties, whose share increased to 48% (2017: 45%), whereas pbb was cautious on financing retail properties due to its risk assessment.

2. Funding

In 2018, pbb raised new long-term funding of €5.2 billion (2017: €6.1 billion) via Pfandbriefe (€3.6 billion; 2017: €3.8 billion) and unsecured issues (€1.6 billion; 2017: €2.3 billion). A further €0.3 billion resulted from the issue of additional core capital (AT1 capital). Once again, pbb placed issues in euros, as well as in US dollars, pound sterling and Swedish krona. Retail deposits accounted for some €3.0 billion as at year-end (12/2017: €3.3 billion).

Issuance spreads – the risk premiums over the 3-month Euribor reference interest rate – decreased considerably during the course of the year, to an average of 6 bp for Mortgage Pfandbriefe, 0 bp for Public Sector Pfandbriefe and 42 bp for unsecured funding instruments (2017: 16 bp, 11 bp and 75 bp, respectively). Financing activities were concentrated on the first half of the year; spreads widened during the second half.

Since the corresponding legal framework was established in mid-2018, senior unsecured funding instruments have been divided into ‘senior non-preferred’ debt and ‘senior preferred’ debt – with the latter benefitting from structurally higher ratings and correspondingly lower risk premiums. At the beginning of 2019, spreads for unsecured 'non-preferred' issues continued to widen considerably, whereas the increase in the 'preferred' segment was less pronounced: as a result, the spread differential widened from around 20 bp to more than 40 bp, to the benefit of 'preferred' issues. Leveraging its comfortable situation in terms of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) – thanks to its sizeable inventory of subordinated senior non-preferred issues – the Bank will be able to focus its unsecured issuance on the clearly more attractive 'preferred' class over the coming years.

3. Income statement

Net interest income soared, to €450 million (2017: €407 million), on the back of a positive development in assets and liabilities. On the assets side, the average volume of commercial real estate finance rose from €24.4 billion to €25.8 billion, and – as at year-end – even amounted to a total of €26.8 billion (2017: €24.9 billion). On the liabilities side, interest expenses declined due to a lower funding inventory, especially in unsecured issues. Furthermore, maturing liabilities could be replaced at lower rates. As in the previous year, pbb benefitted from floors agreed upon with clients, given the negative interest rate environment. Interest income from the Value Portfolio, which is in the process of being run down, was however lower. Income from proprietary investments was burdened by the ongoing relatively low interest rate levels.

Net fee and commission income from non-accruable fees amounted to €6 million (2017: €8 million).

Net income from fair value measurement (€–9 million; 2017: €–5 million) includes changes in the fair value of stand-alone derivatives (€–1 million; 2017: €–5 million) and – in contrast to the previous year – now also the net result from securities at fair value through profit and loss, given the application of IFRS 9 (2018: €–8 million). In 2018, this figure was particularly impacted by the pull-to-par effect. In addition, the fair value of non-derivative financial instruments fell, among other things due to the widening of the credit spread for an issue from Southern Europe. These expenses were in part compensated by income from a conditional additional purchase price adjustment in connection with HETA Asset Resolution AG.

Net income from realisations was down significantly year-on-year, from €45 million to €32 million, the main reason for this being lower early termination fees (€16 million; 2017: €31 million) due to fewer early loan repayments.

Net income from hedge accounting includes ineffective portions within the permitted range. However, given a lack thereof, net income from hedge accounting was nearly balanced, just as it had been in the previous year, at €–1 million (2017: €–1 million).

Net other operating income of €–7 million (2017: €–1 million) comprised mainly expenses from net new provisions of €4 million (2017: €24 million), which were recognised for example for legal expenses and risks as well as for taxes. In addition, this item includes currency translation expenses in the amount of €2 million (2017: €2 million).

Net income from risk provisioning (€–14million; 2017: €–10 million) resulted mainly from net additions to stage 3 impairments in the amount of €19 million. These additions were mainly the result of impairments on financings provided for shopping centres in the United Kingdom. These expenses, however, were partly compensated by net reversals of stage 1 and 2 impairments in the amount of €9 million, which were attributable for the most part to holdings in the portfolio set to mature in the short term and/or reduced residual terms. An additional €5 million in provisions was recognised for contingent liabilities or undrawn loan commitments, due to changes in model parameters.

At €193 million, **general and administrative expenses** were below the previous year (2017: €199 million). Personnel expenses decreased on the previous year, which had been burdened by provisions recognised. Non-personnel expenses were almost in line with the previous year's level. After regulatory projects were completed, it was strategic action – such as establishing the electronic platform CAPVERIANT for the intermediation of public-sector loans, or growing the US business – that came into focus during 2018.

Expenses from bank levies and similar dues (€25 million; 2017: €28 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€21 million; 2017: €20 million). Furthermore, this line item comprised expenses of €4 million (2017: €8 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme. These expenses were lower than in the prior year, 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 was €–15 million, almost at the level registered the year before (2017: €–14 million) and resulted primarily from depreciation of property and equipment, and amortisation of intangible assets.

Net income from restructuring (€–9 million) included additions to provisions relating to the reorganisation of the business activities in Public Investment Finance and the centralisation of infrastructure tasks. In the year before, net income from restructuring had benefited from the reversal of provisions and reached a positive figure (2017: €2 million).

Income taxes (expenses of €36 million; 2017: expenses of €22 million) resulted from a current tax expense of €35 million (2017: €39 million); despite higher net income, the actual tax expense was below the previous year's level since provisions for tax risks were reversed. At the same time, a deferred tax expense in the amount of €1 million also influenced the income taxes line. In 2017, the Bank had incurred marked deferred tax income of €17 million, resulting from changes in temporary differences as well as from an increase in deferred tax assets on loss carry forwards. The year under review did not benefit to an equal extent.

Profit after taxes was €179 million, after €182 million in the previous year.

4. Key regulatory capital ratios

Key regulatory capital ratios continued to improve as per 31 December 2018. Effects from the first-time application of IFRS 9 increased equity, whilst risk-weighted assets remained stable year-on-year. The tier 1 and own funds ratios benefitted from an AT1 capital issuance.

As at 31 December 2018, the **CET1 ratio** rose to 18.5% (31 December 2017: 17.6%), the **own funds ratio** to 24.9% (22.2%) and the **leverage ratio** to 5.3% (4.5%). All ratios are "fully loaded", i.e. after expiry of all Basel III transitional regulations, and after appropriation of profits.

Within the scope of the Supervisory Review and Evaluation Process (SREP), supervisory authorities assess and measure the risks banks are exposed to. Regulators lowered **SREP requirements** for pbb's CET1 ratio for 2019 to 9.85% (2018: 9.95%, fully loaded). The pillar 2 requirement sank from 2.75% to 2.5%, while the countercyclical buffer – which is being levied pursuant to local provisions, especially in the United Kingdom, France, Sweden, and the Czech Republic – rose from 0.2% to 0.35%.

5. Dividend proposal

pbb wants to pay an attractive dividend to its shareholders for 2018. The Management and Supervisory Boards will propose a dividend distribution of €1.00 per share entitled to dividend payments to this year's Annual General Meeting. Based on the Xetra year-end closing price for 2018, this would result in a dividend yield of 11.4%.

The proposal comprises a regular dividend of 50% plus a special dividend of 25% – 75% in total – applicable to the upper end of the original guidance for a profit before taxes of €170 million. In addition, pbb wants to distribute income over and above its original guidance in full. This would translate into a total distribution of €134 million – equivalent to 81% of profit after taxes and AT1 instruments.

6. Outlook 2019

pbb anticipates another good result in 2019. At the same time, the Bank will adhere to its cautious stance and conservative risk policy, given the challenging market and competitive environment in commercial real estate finance.

- Accordingly, the Bank thus endeavours new **Commercial Real Estate Finance** business between €8.5 billion and €9.5 billion (including extensions by more than one year), with the upper end of the guidance matching the volume of new business originated in 2018. The Bank expects a slight increase in strategic financing volumes, assuming a slight decrease in average gross interest margins on new business.

  In the **Public Investment Finance** business, which pbb has rescaled, the Bank plans to keep its portfolio largely stable, with a slight increase in new business margins.

- pbb anticipates **pre-tax profit** in a range between €170 million and €190 million, expecting a slightly lower **net interest and commission income**.

  Maintaining its conservative approach to **risk provisioning**, pbb plans risk costs in the order of 10 to 15 basis points on the Real Estate Finance portfolio – without implying individual events or specific requirements, as usual.

- pbb anticipates a slight increase in **general and administrative expenses**.

Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS, € million)	Q4 17	2017	Q1 2018	Q2 2018	Q3 2018	Q4 18	2018
Net interest income	109	407	107	113	114	116	450
Net fee and commission income	2	8	1	2	1	2	6
Net income from fair value measurement	-1	-5	0	4	-2	-11	-9
Net income from realisations	14	45	9	6	8	9	32
Net income from hedge accounting	-1	-1	-1	-1	1	0	-1
Net other operating income	-4	-1	-4	-5	-3	5	-7
Operating income	**119**	**453**	**112**	**119**	**119**	**121**	**471**
Net income from risk provisioning	-7	-10	4	3	-17	-5	-14
General and administrative expenses	-58	-199	-44	-44	-48	-57	-193
Expenses from bank levies and similar dues	-1	-28	-21	-1	-1	-2	-25
Net income from write-downs and write-ups on non-financial assets	-3	-14	-3	-4	-4	-4	-15
Net income from restructuring	0	2	0	0	0	-9	-9
Pre-tax profit	**50**	**204**	**48**	**73**	**49**	**44**	**215**
Income taxes	-9	-22	-9	-14	-10	-3	-36
Net income after taxes	**38**	**182**	**39**	**60**	**39**	**41**	**179**

Key ratios (%)	Q4 17	2017	Q1 2018	Q2 2018	Q3 2018	Q4 18	2018
Cost/income ratio	51.3	47.0	42.0	40.3	43.7	50.4	44.2
Return on equity before taxes	7.1	7.3	6.7	9.5	6.3	5.5	7.1
Return on equity after taxes	7.9	6.5	5.4	7.6	4.9	5.1	5.9

Balance sheet data (IFRS, € bn)	12/17	12/17	03/18	06/18	09/18	12/18	12/18
Total assets	58.0	58.0	57.6	57.8	57.3	57.8	57.8
Equity	2.9	2.9	3.0	3.2	3.2	3.3	3.3
Financing volume	45.7	45.7	46.3	45.9	45.7	46.3	46.3

Please note: Please note: All quarterly figures quoted in this press release are unaudited, whilst figures for the first half of the financial year were reviewed by the external auditors.

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