News

Q1 2019 - another strong first quarter for pbb

- Consolidated profit before tax (in accordance with IFRS) stable, at €48 million
- Net interest income rises to €116 million – thanks to further growing strategic portfolio volume, and funding costs remaining low
- General and administrative expenses at a low level of €46 million
- Q1 risk provisioning remains clearly below plan
- Solid new business of €2.0 billion
- Structure of new Commercial Real Estate Finance business impacts upon Q1 margins

Munich, 13 May 2019 – During the first quarter of 2019, pbb Deutsche Pfandbriefbank AG generated pre-tax profit of €48 million (in accordance with IFRS, unaudited), unchanged from the same quarter of the previous year. Net interest income, pbb's most important source of income, increased by more than 8% to €116 million (Q1 2018: €107 million), thanks to higher interest income from the further growing strategic portfolio, and funding costs remaining at a low level. At €46 million, pbb also maintained its general and administrative expenses at a low level (Q1 2018: €44 million); risk provisioning saw net additions of €1 million (Q1 2018: net releases of €4 million). On the other hand, expenses for the bank levy of €20 million, which are recognised for the full year in the first quarter, burdened results (Q1 2018: €20 million, each taking into account 15% cash collateral pledged). On Monday, pbb confirmed its guidance for the financial year 2019, with profit before taxes expected between €170 million and €190 million.

New Commercial Real Estate Finance business amounted to €1.9 billion in the first quarter of 2019, up 12% compared to the same quarter of the previous year (Q1 2018: €1.7 billion, each including extensions beyond one year). However, average gross margins were down to approximately 130 basis points in the first quarter of 2019 (2018: ~155 bp). This reflected the fact that new business was shaped by a high share of transactions with an even more conservative risk profile – and hence, lower margins. The share of business in Germany and France – as well as in office and residential properties – was thus relatively high. New business in the UK, in Central and Eastern Europe, and in logistics properties, on the other hand, was lower. Furthermore, the average loan-to-value ratio of 58% for new commitments was below the 2018 level, and pbb was involved in less development financings. The Bank is expecting average gross margins to pick up again in the second quarter towards the previous year's average, due to a new business mix within the usual framework.

Andreas Arndt, pbb's CEO and CFO, said: "The strong performance of pbb is driven by the solid growth of our strategic business, and supported by strict cost and risk management. Moreover, despite a more difficult situation on the debt markets, we continue to benefit from low funding costs, as our new-issue spreads remain below the costs of maturing issues. Based on a different mix in the new business, we expect a marked improvement in new business margins in the second quarter. We are, however, sticking to our risk-conservative approach to new business."

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FACTS AND FIGURES FOR THE FIRST QUARTER OF 2019

1. New business and portfolio

New **Commercial Real Estate Finance** business rose from €1.7 billion to €1.9 billion. This figure includes extensions beyond one year, which amounted to €0.2 billion, as in the same period of the previous year. The average loan-to-value ratio for new commitments declined slightly in the first quarter of 2019, to 58% (full year 2018: 59%).

The composition of new business in the first quarter has differed relatively clearly from the same period in the 2018 financial year. pbb attributes this mainly to the nature of its business, which only allows for limited control at a quarterly level, rather than to any change in the Bank's business focus.

- At 51% and 26%, Germany (FY 2018: 40%) and France (FY 2018: 13%), respectively, accounted for the largest share of new business. In contrast, the share of new business in the UK fell to 6% (FY 2018: 11%). There was also a particularly pronounced decline in Central and Eastern Europe, where only 1% of new business was generated (FY 2018: 7%).

- Looking at property types, office properties continued to predominate, with a share rising from 48% in 2018, to 55%. Residential properties accounted for 22% of new business in the first quarter of 2019, up from 16% for the full year 2018. The share of retail properties showed a marked decline in the first quarter of 2019, to 4% (FY 2018: 15%).

New **Public Investment Finance** business totalled €0.1 billion during the period under review; pbb has been adjusting the structure of this segment to market conditions since the fourth quarter of 2018.

The **financing volumes of the strategic portfolio** rose to €34.2 billion at the end of the first quarter of 2019, compared to €33.2 billion at the end of 2018. Thus, pbb has already achieved a significant increase in financing volume of €1 billion in the first quarter, whereas in the whole of 2018 it increased by €1.3 billion.

2. Funding

During the first quarter of 2019, pbb raised new long-term funding in the amount of €2.7 billion (Q1 2018: €2.0 billion). The volume was divided almost equally between Pfandbriefe, with €1.5 billion (€1.2 billion of which were Mortgage Pfandbriefe), and unsecured issues, with €1.2 billion. In the course of the (remaining) year, Pfandbrief issues usually predominate. In the case of unsecured funding, pbb almost exclusively issued senior preferred bonds, which have a better rating and correspondingly lower risk premiums due to their position in the liability cascade.

Issuing spreads (over 3-month Euribor) were higher in the first quarter of 2019, compared to the same quarter of the previous year, yet below the levels of maturities: they stood at 16 bp for Mortgage Pfandbriefe (Q1 2018: -4 bp), 21 bp for Public-Sector Pfandbriefe (Q1 2018: 0 bp), and 78 bp for unsecured issues (Q1 2018: 49 bp for senior non-preferred bonds).

3. Consolidated income statement (IFRS, unaudited)

Net interest income increased to €116 million (Q1 2018: €107 million): on the one hand, the increase reflected the higher average volume of commercial real estate loans, which rose to €27.3 billion (Q1 2018: €25.3 billion). On the other hand, lower funding expenses – due to maturing liabilities being replaced at lower rates – also contributed to the increase. As in the same period of the previous year, pbb benefitted from floors in client business, given the interest rate environment.

Net fee and commission income from non-accruable fees amounted to €1 million (Q1 2018: €1 million).

Net income from fair value measurement of €–2 million (Q1 2018: €0 million) resulted from changes in the fair value of derivatives as well as non-derivative financial instruments at fair value through profit and loss; the net figure was burdened by the 'pull-to-par' effect (€-5 million, largely from derivatives), whilst positive measurement effects of non-derivative financial instruments contributed €3 million.

Net income from realisations (€6 million; Q1 2018: €9 million) comprised prepayment fees of €4 million (Q1 2018: €4 million) and fee realisations of €2 million (Q1 2018: €3 million); the figure for the same period of the previous year included €2 million in income from redemption of liabilities.

Net income from hedge accounting of €-1 million (Q1 2018: €-1 million) was due to ineffective portions from hedging relationships within the permissible range.

Net other operating income/expenses of €-1 million (Q1 2018: €-4 million) comprised €1 million in expenses from currency translation.

Net loss from risk provisioning (€-1 million; Q1 2018: net gain of €4 million) resulted mainly from net additions to stage 1 impairments, due to updated macroeconomic measurement parameters.

General and administrative expenses of €46 million were slightly higher than in the previous year (Q1 2018: €44 million), reflecting increases in personnel expenses and non-personnel expenses of €1 million each.

Expenses from bank levies and similar dues (€21 million; Q1 2018: €21 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€20 million; Q1 2018: €20 million); the charge had to be recognised in the first quarter for the entire year, in accordance with IFRIC 21 stipulations. Furthermore, this line item comprised expenses of €1 million (Q1 2018: €1 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets (€-4 million; Q1 2018: €-3 million) resulted from depreciation of tangible assets, and amortisation of intangible assets; during the period under review, this item included depreciation of rights of use under leases, which need to be capitalised in accordance with IFRS 16. Net gains and losses from restructuring (€1 million; Q1 2018: €0 million) included income from the reversal of provisions related to human resources.

As in the same period of the previous year, **income taxes** of €-8 million (Q1 2018: €-9 million) were due exclusively to current taxes.

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4. **Regulatory capital ratios** (IFRS, unaudited)

Risk-weighted assets (RWA) were down slightly during the first quarter of 2019, to €14.3 billion (31 December 2018: €14.6 billion). An RWA increase in the strategic portfolio was more than offset by technical and valuation driven effects as well as rating changes. Given that pbb's capitalisation hardly changed during the first quarter, its capital ratios slightly improved at the end of the quarter:

- The CET1 ratio amounted to 18.8% at the end of March 2019 (12/2018: 18.5%), whilst the tier 1 ratio rose from 20.5% to 20.9%.

- The Own Funds Ratio rose to 25.4% at the end of March 2019 (12/2018: 24.9%).

- The Leverage Ratio decreased slightly, to 5.1% (12/2018: 5.3%).

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

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018	Q1 2019
Net interest income	107	113	114	116	450	116
Net fee and commission income	1	2	1	2	6	1
Net income from fair value measurement	0	4	-2	-11	-9	-2
Net income from realisations	9	6	8	9	32	6
Net income from hedge accounting	-1	-1	1	0	-1	-1
Net other operating income	-4	-5	-3	5	-7	-1
Operating income	**112**	**119**	**119**	**121**	**471**	**119**
Net income from risk provisioning	4	4	-17	-5	-14	-1
General and administrative expenses	-44	-44	-48	-57	-193	-46
Expenses from bank levies and similar dues	-21	-1	-1	-2	-25	-21
Net income from write-downs and write-ups on non-financial assets	-3	-4	-4	-4	-15	-4
Net income from restructuring	0	0	0	-9	-9	1
Pre-tax profit	**48**	**74**	**49**	**44**	**215**	**48**
Income taxes	-9	-14	-10	-3	-36	-8
Net income after taxes	**39**	**60**	**39**	**41**	**179**	**40**

Overview of the pbb Group

Key ratios (%)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018	Q1 2019
Cost/income ratio	42.0	40.3	43.7	50.4	44.2	42.0
Return on equity before taxes	6.7	9.5	6.3	5.5	7.1	6.0
Return on equity after taxes	5.4	7.6	4.9	5.1	5.9	4.9

Balance sheet data (IFRS, € bn)	03/2018	06/2018	09/2018	12/2018	12/2018	03/2019
Total assets	57.6	57.8	57.3	57.8	57.8	60.3
Equity	3.0	3.2	3.2	3.3	3.3	3.3
Financing volume	46.3	45.9	45.7	46.4	46.4	47.2