News

Strong business performance for pbb in the first half of 2019

- Pre-tax profit of €117 million supports raised full-year guidance, to the upper end of (or slightly above) the range between €170 million and €190 million
- Net interest income rises to €229 million, driven by portfolio growth and lower funding costs
- No net additions to risk provisions required in the first half-year
- New business of €4.6 billion up year-on-year – gross margin increases again compared to Q1, as expected

Munich, 12 August 2019 – During the first half of 2019, pbb Deutsche Pfandbriefbank AG generated pre-tax profit of €117 million (consolidated, in accordance with IFRS, reviewed by external auditors). Its operating performance was thus in line with the good pre-tax results for the first half of 2018 (€122 million). In view of the strong business development during the first half of 2019, pbb raised its guidance for profit before taxes for the full year at the end of June, to the upper end of (or slightly above) the range between €170 million and €190 million. This forecast includes full planned risk costs for 2019.

In particular, pbb's positive development in the first half of 2019 was attributable to net interest income. This most important source of income rose to €229 million (6m 2018: €220 million). At the same time, no net risk costs needed to be recognised for the Bank's credit portfolio during the period under review (6m 2018: release of €8 million). General and administrative expenses rose slightly, to €93 million (6m 2018: €88 million), reflecting the Bank's various digitalisation initiatives as well as implementation of new regulatory requirements.

pbb further boosted **new business**, having originated a volume of €4.6 billion during the first half of 2019 (6m 2018: €3.8 billion; including extensions beyond one year). The Bank also boosted gross margins on new Commercial Real Estate Finance business during the second quarter: following the first quarter, which was shaped by a high share of transactions with an even more conservative risk profile, margins rose to above 150 basis points (bp) and thus reverted to the average margin levels for the full year 2018. This translated into an average gross new business margin of above 140 bp for the first half of the year (6m 2018: >160 bp; 2018: ~155 bp). The average loan-to-value ratio decreased further during the first half of 2019, to 57% (6m 2018: 59%).

CEO **Andreas Arndt** said: "Our core business continues to develop in a very positive manner. The results are built on strong net interest income, thanks to a growing strategic portfolio and lower funding costs for our lending business. Moreover, once again, no net additions to risk provisions were required. We thus remain cautiously positive, in a market environment that remains exceptionally difficult."

pbb also made good implementation progress regarding **strategic initiatives**: expansion of its business in the US – where pbb now covers the seven large gateway cities – is on schedule. The Bank now also originates primary market business along the US East Coast. The current focus of pbb's digitalisation initiatives is in Commercial Real Estate Finance, where it is in the process of expanding an existing client portal, as well as on further establishing its CAPVERIANT public-sector finance platform.

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FACTS AND FIGURES FOR THE FIRST HALF OF 2019

1. New business and portfolio

New **Commercial Real Estate Finance** business totalled €4.4 billion in the first half of the year, up from €3.6 billion in the same period of the previous year (including extensions beyond one year). Margins benefited in particular from the higher share of US business, which contributed around 15% to new business in the first six months (3m 2019: 10%; 6m 2018: 13%). On top of this, the volume of development financings reverted to a normalised level. With a 12% share for the first half of the year, financings of retail properties caught up compared to the first quarter of 2019. As expected (and in line with risk management), their share still fell clearly short of 2018's first half (3m 2019: 4%; 6m 2018: 19%).

In **Public Investment Finance**, pbb originated new business of €0.2 billion (6m 2018: €0.2 billion), in line with planning.

At €34.1 billion, the **financing volume in the strategic portfolio** was noticeably higher than at the end of the previous year (31 December 2018: €33.2 billion).

In contrast, the portfolio of **non-performing loans** only amounts to €205 million (reported in exposure at default) – down from €347 million at the end of 2018. pbb was able to derecognise loans hedged via Credit-linked Notes (CLNs) within the framework of the Estate UK-3 ("UK-3") securitisation, which a predecessor institution of pbb had used to hedge loan defaults of a real estate portfolio. The real estate loan portfolio subsequently suffered a loan default. An independent expert appointed by the trustee for UK-3 determined at the end of June that the allocation of the full amount of a credit loss of GBP 113.8 million to the CLN was in fact permissible. pbb will allocate the loss to the CLN at the next possible date, which is 20 September 2019.

2. Funding

During the first half of 2018, pbb raised new long-term funding in the amount of €4.2 billion (6m 2018: €3.0 billion), with issuance volumes increasing both for Pfandbriefe and uncovered bonds. Naturally, Pfandbrief issues dominated with an issuance volume of €2.4 billion, of which mortgage Pfandbriefe accounted for €2.1 billion. Unsecured issues contributed €1.8 billion; pbb continued almost exclusively to issue so-called senior preferred bonds, which benefit from a better rating – thanks to their position in the liability cascade – and correspondingly lower spreads. pbb not only issued Pfandbriefe as well as unsecured bonds in euros but also in foreign currencies.

Issuing spreads (over 3-month Euribor) were higher in the first half of 2019, compared to the same period of the previous year, yet remained below the levels of maturing securities: they stood at 16 bp for Mortgage Pfandbriefe (6m 2018: -1 bp), 21 bp for Public-Sector Pfandbriefe (6m 2018: 0 bp), and 74 bp for unsecured issues (6m 2018: 48 bp for senior non-preferred bonds).

3. Consolidated income statement
(in accordance with IFRS, reviewed by external auditors)

Net interest income rose to €229 million (6m 2018: €220 million). This increase resulted in part from the higher average volume of commercial real estate loans totalling €27.4 billion (6m 2018: €25.4 billion), together with lower average margins in new business, and lower funding expenses. These expenses decreased because it was possible to replace maturing liabilities at lower interest rates. As in the same period of the previous year, pbb Group profited from floors in client business, given the interest rate environment.

Net fee and commission income from non-accruable fees amounted to €3 million (6m 2018: €3 million).

Net income from fair value measurement totalled €–7 million (6m 2018: €4 million). Expenses of €9 million from the pull-to-par effect, largely attributable to derivatives, were partly offset in particular by increases in the value of non-derivative financial instruments of €2 million. During the same period of the previous year, pbb Group benefited as a result of a measurement gain from a conditional additional purchase price adjustment in connection with Heta Asset Resolution AG debt securities.

Net income from realisations of €16 million (6m 2018: €15 million) benefited from prepayment fees of €14 million (6m 2018: €8 million) and fee realisations on the disposal of financial instruments of €4 million (6m 2018: €5 million). Redemptions of liabilities resulted in expenses of €1 million (6m 2018: gains of €2 million). Moreover, sales of securities burdened net income from realisations with expenses of €1 million (6m 2018: €0 million).

As in the same period of the previous year, **net income from hedge accounting** was largely stable at €–1 million (6m 2018: €–2 million): the hedges were largely effective as a result of close monitoring and management of interest rate risk.

Net other operating income/expenses of €–2 million (6m 2018: €–9 million) comprised €2 million (6m 2018: €2 million) in expenses from currency translation. The figure for the same period of the previous year also included €6 million in expenses for net new provisions recognised for legal expenses and risks.

There were no net risk costs for the credit portfolio; **net income from risk provisions** was balanced (6m 2018: €8 million). Net additions to stage 3 impairments of €4 million (6m 2018: €2 million) reflected further cautious value adjustments regarding retail properties in the UK. These were offset by net releases of stage 2 impairments of €3 million (6m 2018: €8 million), due to general improvements of measurement parameters, and income from the release of provisions for irrevocable loan commitments of €1 million (6m 2018: €1 million).

General and administrative expenses of €93 million were slightly above the previous year's figure of €88 million. This was mainly due to non-personnel expenses, which rose, inter alia, due to the costs of implementing new regulatory requirements and pbb's digitalisation initiatives.

Expenses from bank levies and similar dues (€22 million; 6m 2018: €22 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€20 million; 6m 2018: €20 million); Furthermore, this line item comprised expenses of €2 million (6m 2018: €2 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 totalling €–8 million (6m 2018: €–7 million) included scheduled depreciation on property, plant and equipment and amortisation of intangible assets; during the period under review, this item included depreciation and amortisation of rights of use under leases required to be capitalised in accordance with IFRS 16 for the first time. IFRS 16 was applied with a modified retrospective effect in the reporting period, based on the transitional provisions as defined in the standard. Figures for the same period of the previous year remained unchanged.

Net gains and losses from restructuring of €2 million (6m 2018: €0 million) included income from the release of provisions related to human resources.

Income taxes of €–18 million (6m 2018: €–23 million) comprised a current tax expense of €9 million (6m 2018: €22 million) and deferred tax expenses of €9 million (6m 2018: €1 million). The tax arrangements for large-volume, multi-year transactions have been changed by the tax authorities, resulting in changes to current and deferred tax items.

4. Regulatory capital ratios
(consolidated figures in accordance with IFRS)

Risk-weighted assets (RWAs) declined to €13.6 billion at the end of the second quarter of 2019, compared to €14.6 billion at the end of 2018. Given slight growth in the portfolio, the RWA decline was due, in particular, to measurement effects. With pbb's capitalisation remaining virtually unchanged at the end of the first half of 2019, regulatory capital ratios thus improved further. However, considering the impact of the ECB-TRIM exercise, EBA Guidelines and Basel IV, pbb expects RWAs to increase by €4 billion to €5 billion, with a corresponding effect on capital ratios.

- The CET1 ratio amounted to 19.4% at the end of June 2019 (12/2018: 18.5%), whilst the tier 1 ratio rose to 21.6% (12/2018: 20.5%).
- The Own Funds Ratio rose to 26.3% at the end of June 2019 (12/2018: 24.9%).
- The Leverage Ratio decreased slightly, to 5.0% (12/2018: 5.3%).

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

	Q2 2018	H1 2018	2018	Q1 2019	Q2 2019	H1 2019
Net interest income	113	220	450	116	113	229
Net fee and commission income	2	3	6	1	2	3
Net income from fair value measurement	4	4	-9	-2	-5	-7
Net income from realisations	6	15	32	6	10	16
Net income from hedge accounting	-1	-2	-1	-1	-	-1
Net other operating income	-5	-9	-7	-1	-1	-2
Operating income	**119**	**231**	**471**	**119**	**119**	**238**
Net income from risk provisioning	4	8	-14	-1	1	-
General and administrative expenses	-44	-88	-193	-46	-47	-93
Expenses from bank levies and similar dues	-1	-22	-25	-21	-1	-22
Net income from write-downs and write-ups on non-financial assets	-4	-7	-15	-4	-4	-8
Net income from restructuring	-	-	-9	1	1	2
Pre-tax profit	**74**	**122**	**215**	**48**	**69**	**117**
Income taxes	-14	-23	-36	-8	-10	-18
Net income after taxes	**60**	**99**	**179**	**40**	**59**	**99**

Overview of the pbb Group

Key ratios (%)	Q2 2018	H1 2018	2018	Q1 2019	Q2 2019	H1 2019
Cost/income ratio	40.3	41.1	44.2	42.0	42.9	42.4
Return on equity before taxes	9.5	8.2	7.1	6.0	9.0	7.6
Return on equity after taxes	7.6	6.7	5.9	4.9	7.6	6.3

Balance sheet data (IFRS, € bn)		06/2018	12/2018	03/2019		06/2019
Total assets		57.8	57.8	60.3		60.1
Equity		3.2	3.3	3.3		3.2
Financing volume		45.9	46.3	47.1		46.4

Please note: all annual financial statements figures quoted in this press release are audited; half-yearly financial statements were reviewed by external auditors; quarterly financial statements are unaudited

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