Media Release

pbb's profit before taxes rises to €187 million after the first nine months of 2019 - pbb raises guidance for the 2019 financial year

- Net interest income rises to €341 million
- Risk provisions of €10 million for the first nine months in line with the previous year's levels
- New real estate finance business rises to €6.9 billion - higher gross margins
- pbb now expects pre-tax profit of between €205 million and €215 million for the full year 2019, despite higher expenditure in the fourth quarter

Munich, 11 November 2019 – As reported on 7 November, following a strong third-quarter performance, with pre-tax profit of €70 million, pbb increased profit before taxes for the first nine months of the year to €187 million (Q3 2018: €49 million / 9m 2018: €171 million; (consolidated figures in accordance with IFRS, unaudited). Once again, net interest income had a positive impact: thanks to a larger strategic portfolio as well as lower funding costs, the figure for the first nine months showed a slight increase to €341 million (9m 2018: €334 million). Higher net income from realisations, amounting to €31 million (9m 2018: €23 million) and primarily due to considerably higher prepayment fees, added to the picture. As expected, higher income was accompanied by slightly higher general and administrative expenses of €141 million (9m 2018: €136 million), with the increase due in particular to regulatory projects driven by regulation. Risk provisioning for the first nine months (€10 million net; 9m 2018: €9 million net) reflected pbb's consistent policy of applying conservative valuations in connection with measurement changes related to shopping centres in the United Kingdom.

New business also developed favourably during the first nine months of the current financial year. In its core Commercial Real Estate Finance business, pbb boosted new business volume to €6.9 billion (9m 2018: €5.5 billion) – without compromising its selective origination approach. Gross margins also continued to improve during the third quarter: pbb achieved an average gross margin in excess of 150 basis points for the first nine months, a level that is in line with the full year 2018. Strong new business also impacted upon pbb's credit portfolio, which grew to €27.7 billion in Commercial Real Estate Finance (9m 2018: €26.8 billion).

pbb raised its guidance for the full year 2019 on 7 November 2019; the Bank now expects pre-tax profit of between €205 million and €215 million. Similar to the previous year, the guidance incorporates for the fourth quarter considerably higher expenditure, together with stable net interest income. Specifically, persistent economic uncertainty is likely to lead to risk parameters being adjusted as a precautionary measure, hence requiring additional risk provisioning. Moreover, general and administrative expenses will increase during the fourth quarter.

CEO **Andreas Arndt** commented: "pbb's core business remains stable, with good net interest income, strong new business and low funding costs. On the back of pbb's operative strength, we are able to raise our guidance whilst further enhancing pbb's position, through conservative valuations and further investments in digital initiatives in the fourth quarter."

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FACTS AND FIGURES ON RESULTS FOR THE FIRST NINE MONTHS OF 2019

1. New business and portfolio

Of the entire new business volume for the first nine months of 2019 (€7.2 billion), €6.9 billion was generated in Commercial Real Estate Finance (9m 2018: €5.9 billion, REF: €5.5 billion, including extensions of more than one year). In addition, pbb originated €0.3 billion in new Public Investment Finance business (9m 2018: €0.4 billion).

Looking at the regional distribution, Germany remained the most important individual market in **Commercial Real Estate Finance**, accounting for 46% of new business. As the predominant property type, office buildings also accounted for 46%. A new business share of 14% was originated in the US (unchanged year-on-year), which thus evolved into pbb's second-biggest market during the first nine months of 2019. New business in France developed favourably, rising to approximately €760 million (up by more than 50% year-on-year). Conversely, faced with Brexit-related uncertainty, new business in the United Kingdom declined to a share of 7% (9m 2018: 12%).

Gross new business margins continued their positive trend, rising to an average of more than 150 basis points for the first nine months of the year, which is in line with the full year 2018. Given the structure of new business, pbb had reported lower gross margins on new business for the first quarter of 2019.

The Bank's guidance for new Commercial Real Estate Finance business in the full year 2019 remains unchanged, at between €8.5 billion and €9.5 billion (including extensions of more than one year).

At €34.0 billion, the **financing volume in the strategic portfolio** was slightly higher than at the end of the previous year (31 December 2018: €33.2 billion).

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2. Funding

During the first nine months of 2019, pbb raised new **long-term funding** in the amount of €5.5 billion (9m 2018: €4.2 billion). The increase was attributable to significantly higher volumes of unsecured issues (which rose to €3.0 billion), whilst Pfandbrief issues of €2.6 billion were relatively stable (9m 2018: €1.3 billion in unsecured issues plus approximately €2.9 billion of Pfandbriefe). pbb continues to issue unsecured bonds almost exclusively in the form of so-called 'senior preferred' issues, which offer a better rating and lower risk premia thanks to their better positioning in the debt structure and the liability cascade. As in the past, besides euro-denominated issues, pbb has also raised funding in foreign currencies.

Issuing spreads (over 3-month Euribor) remained higher in the first nine months of 2019, compared to the same period of the previous year: they averaged 16 bp for Mortgage Pfandbriefe (9m 2018: 3 bp), 21 bp for Public-Sector Pfandbriefe (9m 2018: 0 bp), and 73 bp for unsecured issues (9m 2018: 48 bp, with a lower portion of senior preferred bonds). Whilst these spreads reflected general market developments, the current year's funding costs remained below the levels of maturing securities.

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

Risk-weighted assets (RWAs) decreased slightly, compared to the 2018 year-end, to €14.3 billion at the end of the third quarter of 2019, yet they exceeded the level seen at the half-year point 2019, mainly on account of new business (31 Dec 2018: €14.6 billion; 30 Jun 2019: €13.6 billion). Given a virtually unchanged capital base, pbb's regulatory capital ratios as at the end of September 2019 were roughly in line with the end of 2018.

- The **CET1 ratio** amounted to 18.3% at the end of September 2019 (31 Dec 2018: 18.5%; 30 Jun 2019: 19.4%), whilst the **Tier 1 ratio** stood at 20.4% (31 Dec 2018: 20.5%: 30 Jun 2019: 21.6%).
- The **Own Funds Ratio** was 24.8% at the end of September 2019 (31 Dec 2018: 24.9%; 30 Jun 2019: 26.3%).
- The **Leverage Ratio** stood at 5.1% (31 Dec 2018: 5.3%; 30 Jun 2019: 5.0%).

As reported, pbb anticipates a marked RWA increase of between €4 billion and €5 billion, given the impact of regulatory requirements such as TRIM, new EBA guidelines and Basel IV, and hence, lower regulatory capital ratios. Having simulated these effects in a **pro-forma calculation**, pbb expects RWAs of approximately €18.5 billion as at the end of 2019, and a CET1 ratio above 14%. With this, pbb addresses capital market expectations, providing greater transparency regarding future regulatory requirements, smoothing out cyclical RWA fluctuations at the same time.

4. Consolidated income statement (in accordance with IFRS)

Net interest income rose to €341 million (9m 2018: €334 million). This increase was driven on the one hand by a higher average volume of commercial real estate loans (€27.5 billion; 9m 2018: €25.5 billion), albeit with lower average margins on new business, and on the other hand by lower funding expenses. The latter item decreased due to maturing liabilities being replaced at lower interest rates. Even though interest rates have clearly moved further into negative territory during the second half of 2019 to date, income from floors for the first nine months of 2019 fell short of the figure for the same period of the previous year.

Net fee and commission income from non-accruable fees of €4 million was unchanged year-on-year (9m 2018: €4 million).

Net income from fair value measurement totalled €-2 million (9m 2018: €2 million). Expenses of €13 million from the pull-to-par effect, largely attributable to derivatives, were offset in particular by increases in the value of non-derivative financial instruments of €11 million. During the same period of the previous year, pbb benefited from a valuation gain from a conditional additional purchase adjustment in connection with Heta Asset Resolution AG debt securities.

At €31 million, **net income from realisations** exceeded the level of the previous year (9m 2018: €23 million). This increase was due to higher prepayment fees, which amounted to €27 million in the period under review (9m 2018: €14 million). This item also comprised €6 million (9m 2018: €9 million) in reversals of fees not yet received due to the early derecognition of financial instruments, as well as €1 million in expenses for the redemption of liabilities (9m 2018: income of €2 million).

Net income from hedge accounting amounted to €-3 million (9m 2018: €-1 million). Hedges were largely efficient thanks to close monitoring and management of interest rate risk.

Net other operating income (€0 million; 9m 2018: €-12 million) included income from non-income tax refunds and currency translation expenses. In the same period of the previous year, net additions of €9 million were incurred, mainly to cover legal expenses and risks.

Net additions to loan loss provisions amounted to €10 million (9m 2018: €9 million). Additions to stage 3 impairments related to financings of shopping centres in the UK (€15 million; 9m 2018: €20 million). Net reversals from stage 1 and 2 impairments amounted to €6 million (9m 2018: €10 million).

General and administrative expenses of €141 million were slightly above the same period of the previous year (9m 2018: €136 million). This was due to non-personnel expenses, which rose, inter alia, due to the costs of implementing new regulatory requirements.

Expenses for bank levies and similar dues (€23 million; 9m 2018: €23 million) mainly comprised expenses for bank levies, taking into account pledged collateral amounting to 15% (€20 million; 9m 2018: €20 million). Furthermore, this line item comprised expenses of €3 million (9m 2018: €3 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups of non-financial assets (€-13 million; 9m 2018: €-11 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The year-on-year increase resulted from write-downs on rights of use under leases, to be reported in accordance with IFRS 16. 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 remain unchanged.

Net income from restructuring (€3 million; 9m 2018: €0 million) included income from the reversal of provisions related to human resources.

Income taxes of €-32 million (9m 2018: €-33 million) comprised a current tax expense of €-12 million (9m 2018: €-31 million) and deferred tax expense of €-20 million (9m 2018: €-2 million). Changes to current and deferred tax items have largely been caused by the tax authorities' amendments to the treatment of a large-volume, multi-year transaction.

Profit after tax amounted to €155 million (9m 2018: €138 million), of which €142 million (9m 2018: €132 million) was attributable to ordinary shareholders and €13 million (9m 2018: €6 million) to AT1 investors.

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

	Q3/18	9m 18	2018	Q1/19	Q2/19	Q3/19	9m 19
Net interest income	114	334	450	116	113	112	341
Net fee and commission income	1	4	6	1	2	1	4
Net income from fair value measurement	-2	2	-9	-2	-5	5	-2
Net income from realisations	8	23	32	6	10	15	31
Net income from hedge accounting	1	-1	-1	-1	-	-2	-3
Net other operating income/expenses	-3	-12	-7	-1	-1	2	-
Operating income	**119**	**350**	**471**	**119**	**119**	**133**	**371**
Net income from risk provisioning	-17	-9	-14	-1	1	-10	-10
General and administrative expenses	-48	-136	-193	-46	-47	-48	-141
Expenses from bank levies and similar dues	-1	-23	-25	-21	-1	-1	-23
Net income from write-downs and write-ups on non-financial assets	-4	-11	-15	-4	-4	-5	-13
Net income from restructuring	-	-	-9	1	1	1	3
Pre-tax profit	**49**	**171**	**215**	**48**	**69**	**70**	**187**
Income taxes	-10	-33	-36	-8	-10	-14	-32
Net income after taxes	**39**	**138**	**179**	**40**	**59**	**56**	**155**

Overview of the pbb Group

Key ratios (%)	Q3/18	9m18	2018	Q1/19	Q2/19	Q3/19	9m 19
Cost/income ratio	43.7	41.9	44.2	42.0	42.9	39.8	41.5
Return on equity before taxes	6.9	7.6	7.1	6.0	9.0	9.2	8.1
Return on equity after taxes	5.5	6.2	5.9	4.9	7.6	7.3	6.6

Balance sheet data (IFRS, € bn)	09/18	09/18	12/18	03/19	06/19	09/19	09/19
Total assets	-	57.3	57.8	60.3	60.1	-	59.8
Equity	-	3.2	3.3	3.3	3.2	-	3.2
Financing volume	-	45.7	46.3	47.1	46.4	-	46.3

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

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