PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE
PFANDBRIEFBANK

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Annual press briefing

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1. Introduction

Good morning, ladies and gentlemen

Welcome to the annual press briefing of pbb Deutsche Pfandbriefbank.

I would like to start by highlighting the main themes that, on the one hand, characterised the year 2016 and, on the other, are expected to be the main themes of 2017 as well:

1) At €301 million, for 2016 we reported the **best consolidated profit in accordance with IFRS to date**, in what is – as yet – the short history of pbb. We owe this very good result to a good, solid core business and extraordinary income from the release of write-downs on Heta Asset Resolution AG (Heta). It is important to note that even without the extraordinary income, we would have produced a result that was in line with our expectations.

2) Our success will also benefit shareholders. The Management Board and the Supervisory Board will propose to the Annual General Meeting to pay a **dividend of €1.05 per share**. This includes a full disbursement of the Heta result and equates to a dividend yield of 11.5% based on the pbb share price at year-end 2016.

3) At €10.5 billion, the volume of **new business** was high – even though careful selection meant it fell short of the record set in 2015.

   We also succeeded in increasing the **gross margin** slightly, despite the ongoing competitive pressure – whilst maintaining our strict and conservative risk standards.

   The **US** market contributed to the good new business overall in Commercial Real Estate Finance. Having only entered this market in the second half-year, we reached a 3% share of our total new business.

4) The environment in the banking industry was, and continues to be, defined by **regulatory changes.**

   Although what is known as **Basel IV** appears to have come much closer in its structural requirements to Germany's requirements in its final phase, its implementation remains uncertain. The requirements that are currently being formulated by the **ECB** are causing more concern. These processes should result in an increase in risk-weighted assets. However, the extent and timing is as yet uncertain, too. For a listed bank, this kind of uncertainty poses a challenge.

   What matters though, is that pbb's capitalisation is good – and with a common equity tier 1 ratio of 19.0% significantly exceeds most of its peers. This affords us room to manoeuvre, not only to meet the regulatory challenges but also to secure further business growth.

5) We will tackle the tougher competitive environment by implementing a bundle of measures aimed at **further enhancing pbb's profitability**. We are developing new target customers and markets such as the US, offering additional products, and we want to invest in the digitalisation of our business. We are preparing to broaden and deepen our range of products and services. We will continue to maintain our high risk standards.

In brief: 2016 was a good year for pbb and an extraordinary effect turned it into a very good year. The 2017 financial year will be no less challenging – nonetheless, we are confident of meeting all the challenges ahead and of not running out of good ideas while doing so.

2. 2016 results

This brings me to the financial statements for 2016. Let me start with some explanations, some of them of technical nature:

- The **write-downs on Heta** are shown in two items of the income statement, specifically in **loan loss provisions** (€9 million for two promissory note loans) and in the **net income from financial investments** (€123 million for seven securities). You may recall:

    - We recognised a **write-down** of €79 million in 2015 – together with the write-down from 2014, we had written down the exposure with a notional value of €395 million by around 50%.

    - In 2016 we were however able to recoup €132 million, after accepting a buyback offer by the Republic of Austria.

  Although we welcome the fact that we could write back the impairment for the most part, the default of receivables that were guaranteed by an Austrian federal state is highly unsatisfactory. Nonetheless, we decided against a judicial enforcement of all the entitlements, to reduce the complexity and costs for us and to arrive at a secure result quicker.

- There has been a lot of speculation recently about the **Estate UK-3 hedging transaction**. To clarify matters:

    - The 2016 financial statements do **not include provisions** for this securitisation, as we believe the prerequisites for a full allocation of losses have been met.

    - Estate UK-3 was a **synthetic securitisation** issued by a pbb predecessor to hedge a real estate portfolio. Losses were incurred on the portfolio, which we want to allocate to investors in the securitisation, according to the terms of the transaction. In its role as trustee of Estate UK-3, Deloitte has raised doubts about the allocation of losses and will call in an expert.

    - We continue to believe strongly the **prerequisites for the full allocation of losses have been met.** We have therefore not created any loan loss provisions for this case, and also see no grounds to do so under the applicable accounting standards.

- The figures for pbb's IFRS consolidated financial statements for 2016 **were prepared by the Management Board and audited**. Following approval of the results by the Supervisory Board, the annual report will be published by the end of March.

2.1 Consolidated results of Deutsche Pfandbriefbank

This brings me to the **income statement for 2016.** I will concentrate here on the material aspects, but you will find more detailed information in today's press release.

- Our **pre-tax profit** increased substantially in 2016 to €301 million (2015: €195 million).

  We have thus exceeded the forecast we presented in November 2016, where we had estimated a figure of €280 million to €290 million – including the Heta extraordinary income. This was due to slightly better current interest income, as well as to higher compensation for early terminations in the fourth quarter.

  If one excludes the extraordinary income resulting from the write-downs on Heta, we still meet our expectations fully.

- We achieved an **aggregate of net interest and net commission income** of €412 million (2015: €440 million), of which €404 million was from interest income and €8 million from commission.

  - The decline in the entire bank's **net interest income** is explained by lower holdings of interest-bearing assets in the non-strategic Value Portfolio which is being wound down. In addition, net interest income is strained by the low level of market interest rates, which have negative implications for income generated from investing own funds and liquidity the bank is required to hold.

    The strategic portfolio, however, increased slightly in 2016, and net interest income in Commercial Real Estate Finance managed a 4% improvement on the previous year (2016: €321 million; 2015: €308 million).

    We are even more pleased with this development as quarterly net interest income in the first half of 2015 was impacted by high prepayments in high-margin transactions. However, we were able to stabilise this development in the second half of 2015 and in 2016, thanks to the volume of new business and because of stable to rising margins.

    All in all, net interest income has been quite stable now for the last six consecutive quarters.

  - **Net fee and commission income** fell short of our expectations. As we stated this time last year, we were assuming higher income from syndicated business – in other words, from the sale of loans. The low margins made it less appealing for our customers (small and medium-sized insurance companies in particular) to buy loans. Net fee and commission income also benefited less in 2016 from non-recurring effects, in the form of charges due at the end of the loan term.

- Income from the lending business is offset directly by the risk costs. **Loan loss provisions** were almost offset in 2016 – as was the case in 2015; the additions amounted to €1 million. The continuing positive real estate environment and our strict risk policy impacted here.

  - **Specific allowances** in the amount of €6 million were reversed, especially due to Heta.

  - These were offset by an additional net €12 million to **portfolio-based allowances**, resulting from an internal rating downgrade of a southern European region in the non-strategic portfolio. This is a precautionary measure, the external ratings have not deteriorated.

  - This item also includes **income** of €5 million from recovery payments as a result of previously written-off loans and advances. Added to this was income from the reversal of provisions that had been created for contingent liabilities and other commitments.

- We reduced our **general and administrative expenses** further in 2016 through good cost management. We have reported lower expenses for the fourth consecutive year now, falling below the €200 million mark (€198 million, to be precise) in 2016 (2015: €207 million).

    - This reduction was due mainly to lower **personnel expenses** of €103 million (2015: €112 million). Reversal of provisions that had been created in prior periods impacted here in particular. The average number of employees also fell to 801 (2015: 832).

      As these provisions have been fully exhausted and the restructuring measures implemented to the largest extent, we saw a base effect in 2016 – after four years and cost reductions of 40% – and will therefore experience an increase in personnel expenses in 2017. Our reduction targets, however, remain unaffected.

    - **Non-personnel expenses** remained consistent at €95 million, despite additional investments having being made in a bank-wide project that was necessary to implement new regulatory requirements and for enhancing efficiency.

  The **cost/income ratio** improved further to 39% (2015: 52%); excluding the HETA non-recurring income, the CIR would have been around 51%.

- **Profit after taxes** amounted to €197 million or €1.46 per share.

2.2 Dividend proposal

On this basis, the Management and Supervisory Boards will propose to the Annual General Meeting to pay a **dividend** of €1.05 per share . As announced in November, the dividend proposal includes a special dividend in addition to the distribution within the communicated dividend strategy of 40% to 50% of consolidated profit after taxes in accordance with IFRS. pbb will distribute the entire extraordinary income from the reversal of write-downs related to Heta. We will distribute a total of 72% of the results to our shareholders in 2017.

The **dividend yield** therefore rises to 11.5%, based on the year-end Xetra closing price of the pbb share.

3. Regulatory Indicators

Let us move on from the income statement. I now want to talk about key regulatory indicators.

3.1 Regulatory environment

Despite higher dividend disbursements **pbb's capital ratios continued to improve**. Our good **capital buffer** is clearly above that of the market. This is a strategic decision and gives us room to manoeuvre.

- We need to be prepared for a marked increase in risk-weighted assets as the regulatory authorities are reviewing how risks on banks' balance sheets are being measured, as well as their capital backing.
    - Although **Basel IV** appears to have come much closer in its structural requirements to Germany's requirements in its final negotiation phase, its implementation remains uncertain.
    - The bank-by-bank requirements that are currently being formulated by the **ECB** are causing more concern. This happens either as part of individual model reviews, or in the course of "targeted reviews of internal models" (TRIM). These processes will almst certainly lead the increase in risk-weighted assets. However, the extent and timing is as yet uncertain.
- We expect pbb's good capitalisation will prove to be a **competitive advantage**: we can support future growth with the necessary capital stemming from our own capitalisation. That is why, for the time being, we adhere to our capital buffer.

We will review the **capital and dividend strategy** as soon as we have gained clarity about the future regulatory requirements. It is important to us to be equipped with an adequate, conservative capital buffer at all times. But any additional capital, above and beyond the capital buffer and our own growth requirements, belongs to our shareholders – be it through further dividends, or other capital action.

3.2 Capital ratios

This brings me to the ratios at year-end 2016. I will focus first of all on the **output variables** for calculating the capital ratios.

- **Regulatory capital** remained unchanged.
- **Risk-weighted assets** (RWA) fell since year-end 2015, to €13.1 billion (12/2015: €13.4 billion). The run-down of the Value Portfolio is a contributory factor here. Average ratings of securities held in our portfolio have also improved. The RWA had fallen even more during the year, but increased again as a result of the strong new business generated in the fourth quarter.

The interplay between capital and RWA, which are the numerator and denominator of the fraction for calculating the **ratios**, shows an improvement in the regulatory indicators – as I already mentioned – across the board. The following ratios take into account both the annual results and the dividends.

- The **CET 1 ratio** rose
  - under transitional rules to 19.5% (12/2015: 18.9%), and

    fully phased in to 19.0% (12/2015: 18.2%).
- The **tier 1 ratio** rose
  - under transitional rules to 20.9% (12/2015: 20.5%), and
  - fully phased in to 19.0% (12/2015: 18.2%).
- The **own funds ratio** rose
  - under transitional rules to 23.7% (12/2015: 23.4%), and
  - fully phased in to 20.7% (12/2015: 19.9%).

3.3 SREP

The **capital requirements** that pbb must meet in 2017 are defined in the ECB's Supervisory Review and Evaluation Process (SREP). pbb clearly meets the requirements *.*

- The CET 1 Requirement is now 9% for pbb under the **Basel III transitional rules** (excluding the country-specific countercyclical capital buffer, which was 0.08% at year-end 2016). With the new ratio, the ECB has lowered the requirement for pbb by 1.75 percentage points from the previous year.

  This requirement consists of

  - pillar 1 minimum requirement of 4.5%,
  - pillar 2 capital requirement of of 3.25%,
  - capital conservation buffer of 1.25%.

  The CET1 minimum capital requirement that applies for 2017 also represents the threshold for mandatory calculation of a so-called **maximum distributable amount** (MDA). This generally limits distributions of the CET1 capital, new performance-based remuneration, and interest payments on additional Tier 1 capital.

- The new **overall capital requirement** required since 1 January 2017 stands at 12.5% (excluding country-specific and therefore portfolio-specific varying countercyclical capital buffer of 0.08% as at 31 December 2016). It is based on the **Basel III transitional rules** and comprises a Pillar 1 minimum requirement (8.00%), a Pillar 2 capital requirement (3.25%) and a capital conservation buffer (1.25% phased in for 2017).

Following all these figures, I am happy to repeat a qualitative statement I made before: pbb is well capitalised, and is well positioned to meet regulatory changes and growth in its strategic portfolio.

4. Performance of the operating business

4.1 New business

The year 2016 was defined by strong competition in our strategic business segments.

- **Commercial real estate finance** is experiencing significant excess supply from banks and other investors looking for somewhere to invest the funds they have raised. At the same time, real estate investors are facing a similarly significant pressure to invest –with it a shrinking number and volume of real estate transactions, in many markets.

  pbb's strong market penetration and recognised expertise nonetheless allowed us to generate a relatively high volume of new business at higher gross margins than in the previous year, whilst applying the same high risks standards.

- We significantly reduced the volume of new business in **public investment finance**.

  The unchanged low level of investment carried out by the public sector limits business opportunities that meet our risk and return requirements. In addition, the negative effect of the partial suspension of credit protection offered by export financiers for Airbus directly restricted our business opportunities in export finance.

  On the other hand, the performance of the gross margin in this business segment was favourable, rising by more than 10%. However, the fact that we conducted fewer export finance transactions with lower margins also impacted here.

  While competition is expected to remain intense, we view the situation concerning Airbus as temporary.

In this difficult environment, pbb recorded **new business** (including extensions of more than one year) **in the amount of €10.5 billion**. Despite a decline compared with the record volume of new business achieved the year before (€12 billion), 2016 was the second-best year for pbb since it restarted business activities in 2009. The fourth quarter was particularly good: in a brilliant final spurt, we achieved new business volume of €3.7 billion – more than we had ever generated before in any one quarter.

4.1.1 Real Estate Finance (REF)

The Real Estate Finance segment generated **€9.5 billion** in new business. It is worth noting that the volume of pure new business (in other words, not including extensions) was able to keep pace with the previous year's level. We had to make considerable compromises on the extensions. Existing financings provided by our bank are obviously "attractive goods" for our competitors. Furthermore, we did not want to compete with some terms that contravened our risk/return requirements.

- Despite the lower total volume, we concluded a few **more transactions** than in the previous year, namely 189 compared with 180 in 2015.

- We have also been aware for quite some time that concluding a transaction suitable for our operations involves greater effort.

  But this selection has its benefits: our gross margins have remained stable since the first quarter of 2015, up to and including the third quarter of 2016. The **margins increased noticeably for the first time again** in the fourth quarter of 2016, enabling a slight increase over the year from around 170 basis points on average, to more than 175 basis points. This result reflects not least our expertise in structuring complex transactions which adds value for our customers and in turn allows us to realize higher gross margins.

  The higher margins make up for the falling volume of new business in net interest income.

- It is important to note that we did not gain these margins by compromising on risk. In fact, the average **loan-to-value** of new business fell from 63% to 62%. We have no intention of deviating from our strict risk standards. These are rooted in our strategy, and in the way we do business.

- The **composition of new business** has changed considerably.

  - Office buildings (42%, 2015: 32%) and logistics properties (16%, 2015: 11%) have gained significantly in importance. Hotels have also picked up relatively strongly, yet remain less relevant with an 8% (2015: 6%) share of new business.

    In contrast, we extended noticeably fewer loans for retail (18%, 2015: 23%) and residential (12%, 2015: 20%) properties.

  - These changes reflect **our customers' interests** as well as our **thoughts on risk and return** and **competition considerations**.

    Investors found office buildings attractive due to lower vacancy levels at some locations and the relatively good outlook overall for this type of property.

    Logistics properties and hotels are also interesting to investors thanks to the high yields they offer. At the same time, pbb was able to realise its margin requirements with these kinds of property.

    Competition remains very strong among providers of residential property loans and some big investors even fund their operations directly on the capital market.

    We, together with our customers, took a selective approach to the retail property market in 2016. Prospects are not clear here due to the growing importance of online trading.

- One sector where we deliberately extended our business was commercial real estate finance in the **US**. We generated new business there from the second half of the year, and are very satisfied with what we have achieved to date:

    - we granted loans totalling around **€250 million**. The US business therefore contributes 3% right from the start to our new business.

    - Significantly higher **gross margins** can be achieved in the US than in the western European markets on a comparable loan-to-value – this is in line with our expectations.

      We have continued our conservative risk approach here too – the average **loan-to-value** of the US business was 54%.

    - As we set out in our strategy, we financed **office buildings in the big cities on the East Coast** as a syndication partner of US banks and with established investors, most of whom we know from our business in Europe.

4.1.2 Public Investment Finance (PIF)

At **€1 billion**, the volume of new public investment finance is down significantly on the previous year (2015: €1.6 billion). The number of transactions also fell on the back of the lower volume to 28 (2015: 48). The gross margin rose from an average of above 75 to 85 basis points.

Germany accounted for only 7% of new business in 2016, clearly reflecting the competitive pressure in this market. Given our risk/return requirements, Germany offers little potential for pbb to operate in the current market environment. This development has been obvious for quite some time. We have responded to this, and adjusted **our origination structure in Germany** at the start of 2017. We continue to focus on some European markets such as France and Spain, as well as on secured export finance.

4.2 Portfolio

As you know, pbb has two strategic credit portfolios: Real Estate Finance and Public Investment Finance, as well as the non-strategic Value Portfolio (VP), albeit on a significantly reduced scale. As at the end of the year under report, the **total portfolio** amounted to **€47.3 billion**(12/2015: €50 billion).

- The **Value Portfolio** fell as scheduled by €2.9 billion to €15.8 billion in 2016, thanks to natural run-offs.

- The **strategic portfolios** were stable at €31.5 billion (12/2015: €31.3 billion).

  As in the previous year, the increase was lower than would be implied by the volume of new business. Besides regular maturities, early repayments contributed to this development. The extent of these repayments was lower than in the previous year but higher than we had assumed originally.

  Nonetheless, the reasons for the early repayments remain the same as in 2015: in the current environment, some competitors are significantly undercutting the higher margins that we could achieve from our new business at that time. We are not interested in participating in this "exchange of money", if such extensions no longer meet our profitability requirements.

The **quality of the portfolio** remains very high.

- The share of the portfolio classified as **investment grade** according to pbb's definition rose slightly compared with year-end 2015, to 97% (12/2015: 96%).

- The average **loan-to-value** of the Real Estate Finance portfolio – another important indicator of risk – fell from 58% to 56%.

- The volume of **non-performing loans** fell again, to €388 million, after €777 million as at the end of 2015.

  - This decline is based on the wind-down of **restructuring loans.** The fact that we had disposed of our Heta bonds had a significant impact here – this effect accounted for €368 million alone.

  - The volume of the **workout loans**, i.e. actually defaulted loans was unchanged at year-end, at a low €3 million.

4.3 Funding

I will end the disclosures on the 2016 financial year by taking a look at pbb's funding activities.

In 2016, pbb realised new **long-term funding of €5.6 billion**, which is some 25% more than in the previous year (2015: €4.5 billion). Staying true to our name, a material share was issued as Pfandbriefe – a refinancing instrument that has lost nothing of its high competitiveness in this low interest rate environment.

- In total, we issued **€2.9 billion** in **Pfandbriefe** (2015: €1.9 billion) and increased the volume for Mortgage Pfandbriefe in particular (€1.9 billion; 2015: €1.1 billion).

- The volume of **unsecured funding** remained constant at €2.6 billion.

We are more than satisfied with the performance of our **spreads on unsecured bonds**. The lower the spreads, the lower the funding costs. During the past year, the spreads of our benchmark issues narrowed by around 60 basis points, shortening the distance to our competitors.

Looking beyond these figures, it is important to note that we have further extended our **investor base**. We also issued in **foreign currencies**, namely USD, GBP and SEK. This is important, to avoid incurring additional costs for hedging currency risks for business operations in the US, UK and Sweden.

We have started the **year 2017** with good momentum. Issuing large volumes at the start of the year is standard practice. We mirrored this practice from 2016, by launching a total of three benchmark issues and two increases of existing issues, catering for Mortgage Pfandbriefe and Public-Sector Pfandbriefe, as well as the market for unsecured issues: furthermore, we issued in Euro, Pound Sterling and US Dollars.

4.4 Rating

Changes to the rating agencies' methodology resulting from changes to the legal framework had a material impact on pbb's unsecured ratings in 2016. The changes to the legal framework related in particular to implementing the Bank Recovery and Resolution Directive (BRRD). The Pfandbrief rating remained unchanged.

Standard & Poor’s (S&P) intends to split the rating class for senior unsecured debt. Depending on the ranking in a bail-in or insolvency scenario, such debt will be allocated either to a new "senior subordinated" rating class or remain in the current "senior unsecured" rating class. In response to this, S&P examines the ratings assigned to unsecured refinancing instruments, as well as the unsecured long-term issuer ratings of a series of banks, including pbb.

- The outcome could be that unsecured refinancing instruments by pbb, to be allocated to the “**senior subordinated**” rating class, be rated BBB-, one notch lower than the current rating.

- However, the bonds remaining in the “**senior unsecured" or "senior preferred**” rating class, or new bonds meeting the requirements of this class, might be given a rating of A-; in other words two notches higher than the current rating.

- All in all, this might result in pbb's **refinancing costs** falling in the future. However, issuing new senior unsecured bonds would require changes to German law, in accordance with the proposed harmonisation of the EU Bank Recovery and Resolution Directive (BRRD), as submitted at EU level during the fourth quarter of 2016. Against this background, we do not expect to yield any potential related funding benefits before 2018.

5. Outlook

I will conclude by providing you with an outlook for the year 2017, focusing on three aspects in particular: firstly, the sector environment; secondly, our strategic initiatives, and thirdly our expectations vis-a-vis the performance of the relevant indicators.

5.1 Sector environment

Despite considerable political uncertainties, we anticipate a stable **market environment** on the whole. This statement applies to the general economic environment as well as to interest rates and to investment in commercial real estate. It is also true for the strong competition among the providers of real estate finance and the resulting pressure on margins.

Regulation on the other hand is anything but stable. Although we have become used to change, we are highly critical of the potential changes to the risk-weighted assets resulting from the initiatives of the ECB and the Basel Committee on Banking Supervision. We understand the regulatory authorities' desire for harmonisation and comparability, provided it really is a question of comparable risks. However, where it is apparent that different risks should be equally weighted, i.e. more standardisation, this creates an economic incentive to move further along the risk curve. This is unlikely to be in the regulator's interest. As I said before when explaining the capital ratios, it is not yet possible to anticipate the scope and timing of the changes. We would obviously welcome it if the period of uncertainty was as short as possible.

5.2 Initiatives

What does this mean for pbb and our business? pbb will continue to pursue **a policy of conservative risk**. This is not a question of the environment or the current situation, but is rather firmly incorporated in our strategy. We believe that we will reach our ambitious new business targets even with this approach. If the markets fail to provide sufficient volume, we will refrain, rather than compromise our standards concerning risk and return.

In 2017, we will also **thrust innovation forwards** to further strengthen pbb's profitability. We want to be better placed in terms of the breadth and depth of our products and services.

The initiatives are “work in progress”, at different stages of maturity:

- We want to further **diversify** the business in line with the risk standards.

    - We are making good progress in establishing our real estate financing business in the **US**. Given the potential the US offers pbb, we are preparing to have a local team there; until now we have been operating the business entirely from London. One of our strengths is having a local presence, and we intend to use this strength in the US, too.

    - Our core business focus is on investment finance with a LTV around 60%. Better funding conditions, however, allow us to extend the range to include **lower loan-to-value business**, supported by streamlined internal processes, and as a consequence also allow us to expand our customer spectrum into commercial housing. Further, the expansion of our cooperation with partners servicing the High Net Worth Individuals realm has started to yield success.

      In the public sector business, we will work on expanding the ECA business.

- New technologies and management approaches allow us to reinforce our **value chain** for the customer as well as internally. The digitalisation of lending processes on platform models also allows us to develop customer groups that we had lost in recent years due to capital and process efficiency. It also forces us to review internal efficiency. In this context, we are looking at a platform for brokering loans to public-sector entities.

In brief:

- We will expand the US business.
- We will put a stronger focus on our cooperation with institutionals, High Net Worth Individuals and commercial housing.
- And we will invest in a credit platform.

5.3 Objectives for 2017

We will continue to follow our conservative approach to risk and will make prudent investments in new projects and business segments. We believe interest income will remain stable, or be slightly weaker, as a result of better interest-bearing holdings and stable to weaker margins – in fact, the margin profile at the start of 2017 has turned out somewhat better than we had assumed in the planning.

In concrete terms, this means that:

- we are aiming for **new business volume** of between €10.5 billion and €12.5 billion, including extensions of more than one year. Our new business planning is ambitious, but essentially takes into account the following aspects:

    - The pure new business in Commercial Real Estate Finance is expected to come in at around last year's level.

    - Added to this will be the new business from the US.

    - A higher volume of new business in Public Investment Finance is to be expected: in 2016 we were punching below our weight here, and have potential to catch up.

- We therefore plan that the strategic **financing volume** will rise significantly this year, in view of the new business but especially due to the further decline in early repayments.

- On this basis, we predict **net interest and commission income** that will be stable or only slightly lower than the level seen in 2016.

- We expect **costs** to rise.

    - We expect **loan loss provisions** to rise and estimate risk costs in the order of 10 to 15 basis points of the Real Estate Finance portfolio, an assumption we already made in previous years. However, I would like to stress that we currently have no concrete grounds for expecting higher loan loss provisions.

    - We have almost completed the restructuring measures. The effects of cost-cutting will come to an end. After four years, and achieving cost reductions of more than 40%, the coming year is likely to see a rise in **administrative expenses**. This concerns higher personnel expenses in particular. It must be taken into consideration that a material part of the anticipated increase is technical, owing to the end of the reversal of provisions.
    Even so, we expect administrative expenses to be in line with our medium-term guidance of below €220 million for 2017.

- We are targeting **profit before taxes** of between €150 million and €170 million, which would match the result for 2016 as adjusted for extraordinary Heta effects and repeat the operative results level we achieved in the previous year, in spite of many a headwind.

6. Summary

Ladies and Gentlemen,

In brief, this means that

1) with profit before taxes of €301 million, the bank is looking back on a sound operational performance in 2016, with very good financial results.

2) Our dividend yield of 11.5% clearly exceeds comparable return in the market.

3) Our approach to risk, and to our capitalisation remain conservative. With a Common Equity Tier 1 (CET1) ratio of 19%, we consider us well equipped to meet the challenges the regulatory framework and the markets will present us with in the future.

4) We expect a good result in 2017, taking into account the anticipated regulatory challenges as well as higher risk and administrative expenses than in 2016.

5) We are investing in our future at the same time, the key themes being product expansion in the US and digitalisation.

Thank you very much for your attention. I would now be pleased to answer your questions.