

Strong full-year 2018 results with PBT of EUR 215 mn

Annual Media Briefing  
28 February 2019

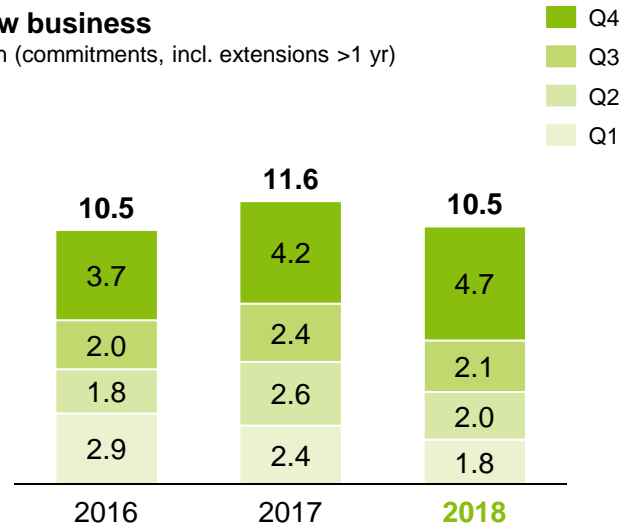
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CEO/CFO  
Deutsche Pfandbriefbank AG

# Highlights

## Operating and financial overview

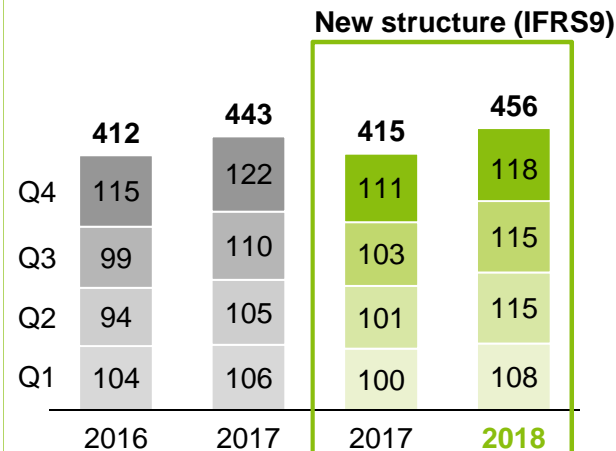
### New business

€ bn (commitments, incl. extensions >1 yr)



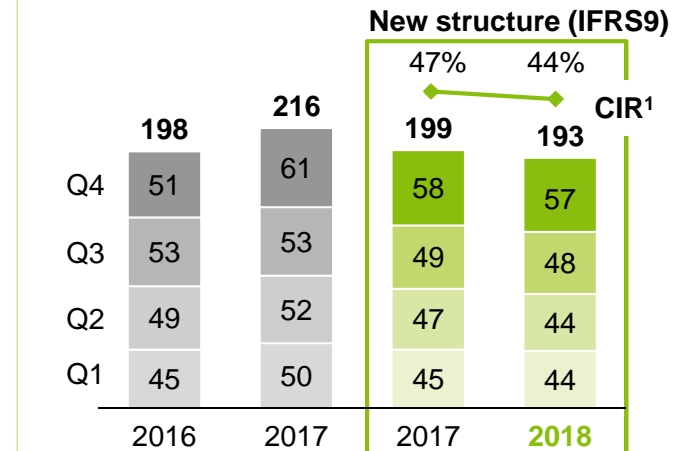
### Net interest and commission income

€ mn (IFRS)



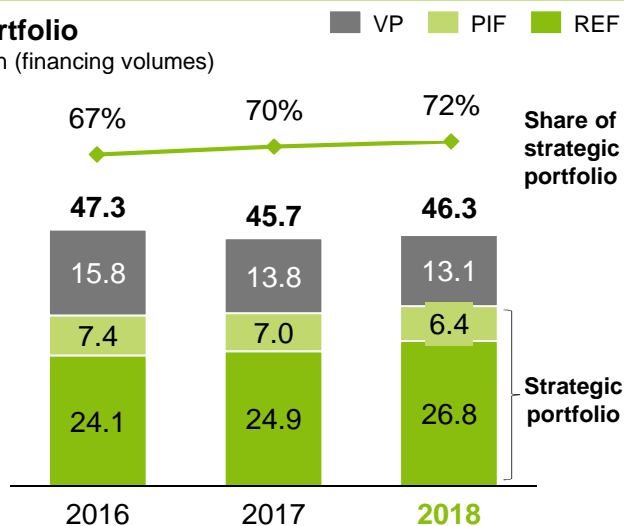
### General and admin. expenses

€ mn (IFRS)



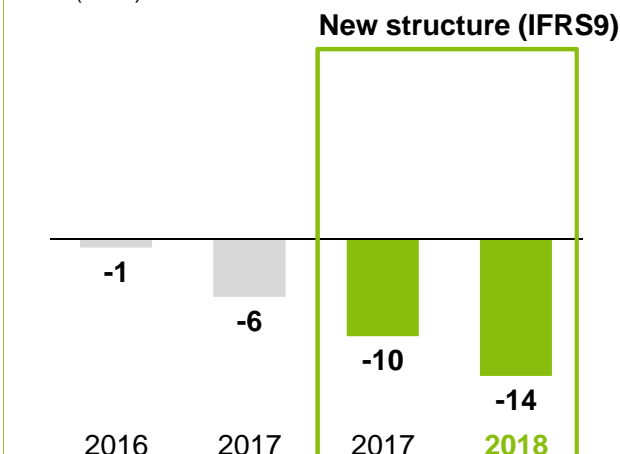
### Portfolio

€ bn (financing volumes)



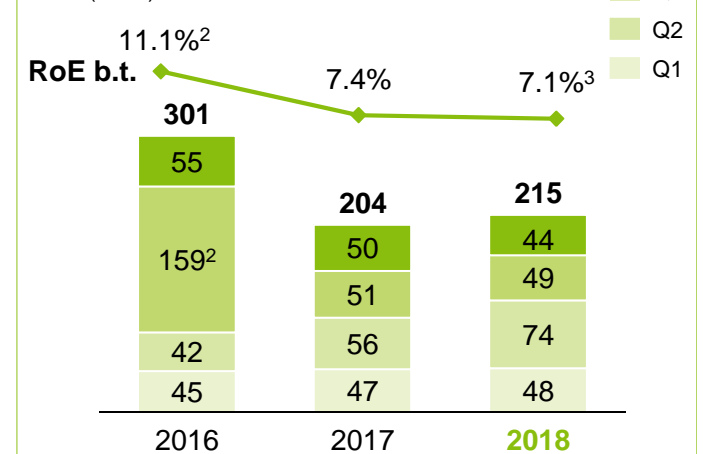
### Net income from risk provisioning

€ mn (IFRS)



### Pre-tax profit

€ mn (IFRS)



Note: Figures may not add up due to rounding. 1 New definition: CIR = (GAE + net income from write-downs and write-ups on non-financial assets)/operating income. 3 Taking into account pro-rata AT1 coupon for 2018 (€ 12 mn pre-tax)

2 Incl. € +132 mn extraordinary gain from value adjustments on HETA exposure

## Financials

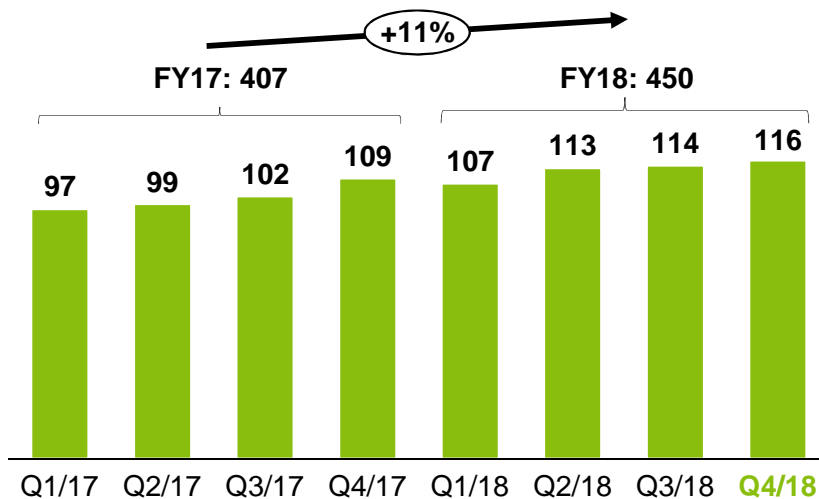
**NII up +11% y-o-y with strong Q4/18 – reduced funding costs and higher avg. strategic financing volume**

### Income from lending business (€ mn)

	Q4/17	Q4/18	FY17	FY18
Net interest income	109	116	407	450
Net fee and commission income	2	2	8	6

	Q4/17	Q4/18	FY17	FY18
Net income from realisations	14	9	45	32

### Net interest income (€ mn)



### Key drivers Q4/FY 2018:

- NII continued to benefit from solid underlying drivers
  - Funding costs reduced y-o-y due to new funding at lower spreads and maturities at legacy costs
  - Avg. strategic REF financing volume up by € 1.4 bn y-o-y to € 25.8 bn (2017: € 24.4 bn)
    - Solid new business volume with strong Q4/18
    - Lower level of prepayments (€ -1.2 bn y-o-y)
  - Avg. total portfolio margin stable y-o-y, reflecting pbb's selective new business approach and growing strategic portfolio
  
- Net income from realisations down y-o-y due to lower prepayment fees (FY/18: € 16 mn; FY/17: € 31 mn)

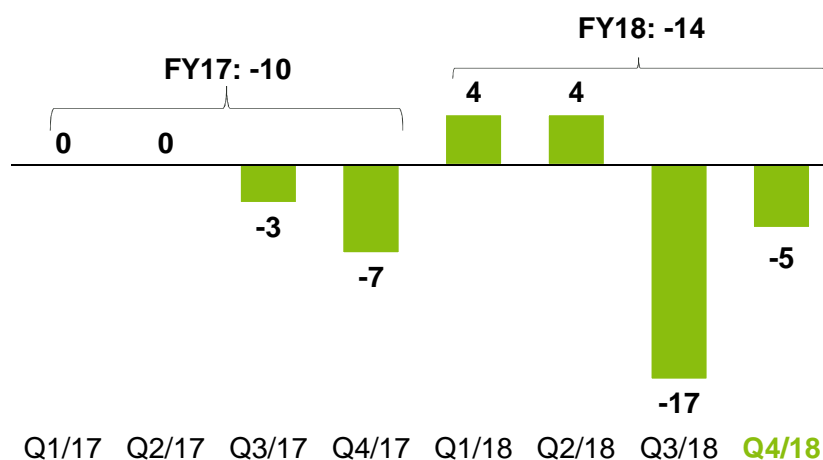
## Financials

### Continued low level of risk costs despite additions for sub segment UK shopping center

#### Net income from risk provisioning

€ mn

	Q4/17	Q4/18	FY17	FY18
Net income from risk provisioning	-7	-5	-10	-14
thereof				
stage 1		-2		-
stage 2	n/a	1	n/a	9
stage 3		1		-19
other loan loss provisions <sup>2</sup>		-5		-4



#### Key drivers Q4/FY 2018:

- Risk provisioning well below initial planning, driven by the following effects:
  - (a) Overall portfolio provisioning still supported by benign sentiment:
    - Net release of provisions in stage 1 and 2 of € 9 mn in FY/18 (Q4/18: € 1 mn) due to improvement of PD/LGD parameters and maturity effects
  - (b) Individual adverse development in sub-segments:
    - Net additions in stage 3 of € -19 mn in FY/18 (Q4/18: € 1 mn) – thereof, € -17 mn for valuation driven provisions on UK retail shopping centers in Q3 (no payment defaults)
  - (c) Additions from parameter changes in Q4/18, especially on irrevocable loan commitments (other loan loss provisions)
- Coverage ratio:
  - Stage 3 coverage ratio<sup>1</sup> down to 18% y-o-y (12/17: 20%), mainly driven by two newly added UK loans with 11% coverage ratio in Q3/18
  - Additional collateral not taken into account – incl. these factors, REF coverage ratio at approx. 100%

**Note:** IFRS 9 Expected Credit Loss Model replaced by IAS 39 Incurred Loss Model (effective 1<sup>st</sup> Jan 18) – new 3 stage logic:

- Stage 1: impaired with 1 year expected credit loss
- Stage 2 and 3: impaired with lifetime expected credit loss
- Scenarios to be taken into account

<sup>1</sup> Coverage ratio = credit loss allowances on financial assets in stage 3 / gross book values in stage 3 (loans and securities)

<sup>2</sup> Incl. recoveries from written-off financial assets and provision in lending business

## Financials

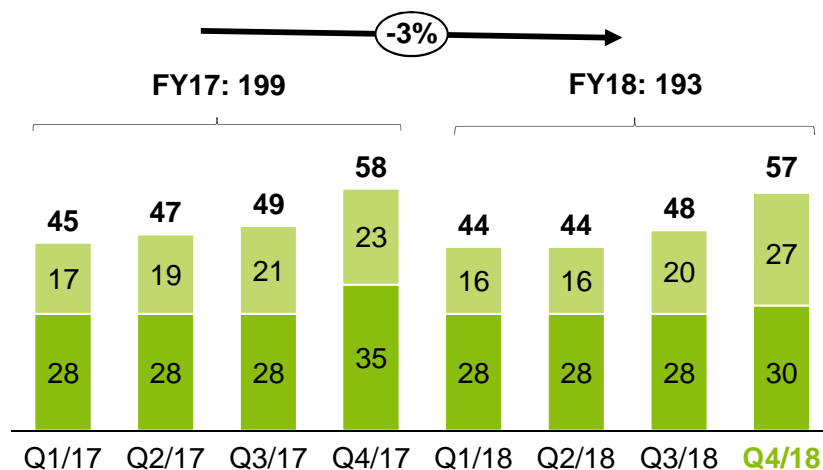
### Operating costs slightly down y-o-y with expected increase in Q4/18

#### General & administrative expenses and depreciations

€ mn

	Q4/17	Q4/18	FY17	FY18
General admin. expenses	-58	-57	-199	-193
Personnel	-35	-30	-119	-114
Non-personnel	-23	-27	-80	-79
Net income from write-downs and write-ups on non-financial assets	-3	-4	-14	-15
CIR (%) <sup>1</sup>	51.3	50.4	47.0	44.2

■ Non-personnel  
■ Personnel



#### Key drivers Q4/FY 2018:

- GAE slightly down y-o-y (-3%) – increase in Q4/18 as expected
  - Personnel expenses slightly down y-o-y as prior year was burdened by higher provisions – FTEs slightly up to 750 y-o-y, but below plan (12/17: 744)
  - Non-personnel costs stable y-o-y
    - Project costs determined by investment expenditure, refinanced by lower expenses for regulatory and other projects
    - Increase in Q4/18 driven by project related costs (esp. IT), partly including accrued expenses for 2019 projects started in 2018
- Net income from write-downs and write-ups on non-financial assets mainly driven by scheduled depreciations

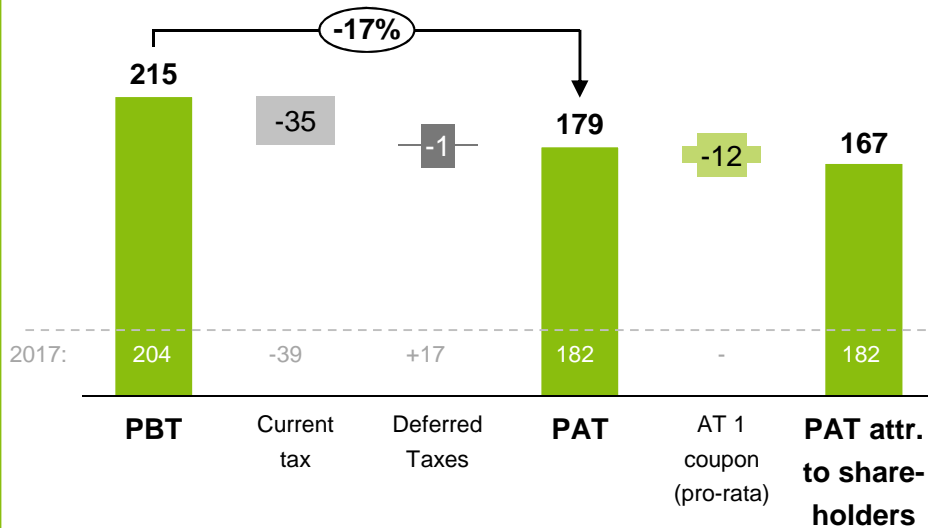
<sup>1</sup> CIR = (GAE + net income from write-downs and write ups on non-financial assets) / operating income

## Dividend 2019

Shareholders to participate from continued strong performance – management intends to propose dividend of € 1.00 (Payout ratio of 81%)

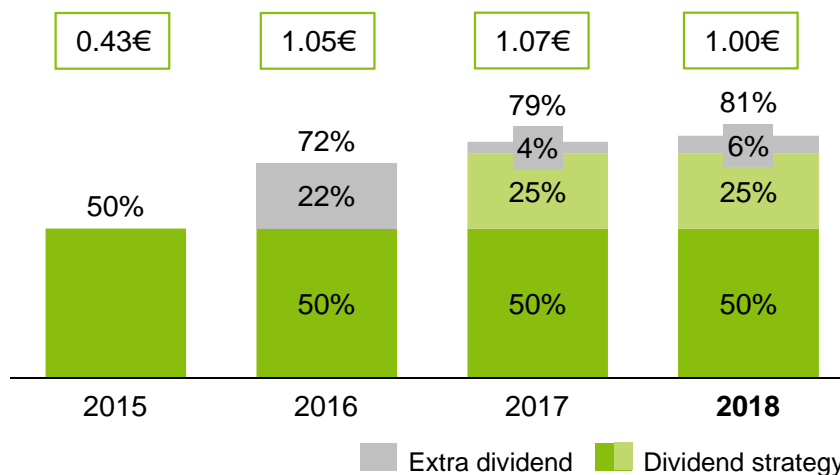
### Profit attributable to shareholders

€ mn (IFRS)



### Payout

DPS



### Dividend proposal 2018

- Dividend strategy: 50% regular dividend + 25% supplementary dividend for 2017, 2018 and 2019<sup>1</sup>
- In addition for 2018 payout of 100% of the earnings exceeding the upper range of our original PBT-guidance 2018 of EUR 170 mn, post taxes and AT 1-coupon
  - PAT attributable to shareholders: EUR 167 mn
  - Earnings per share<sup>2</sup>: EUR 1.24
  - Dividend per share<sup>2</sup>: EUR 1.00
  - Payout ratio of 81%
  - Dividend yield 11.4%<sup>3</sup> / 7.9%<sup>4</sup>

1 Based on IFRS group profit after tax attributable to shareholders 2 Number of outstanding shares 134,475,308  
4 Based on annual average price 2018 (volume weighted daily XETRA closings) of 12.66€

3 Based on XETRA year-end closing price 2018 of 8.74€

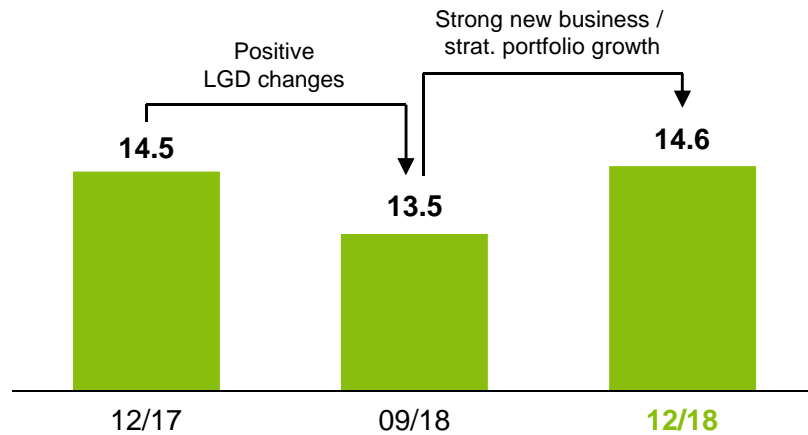
# Capital

Capitalisation remains strong – adequate buffers, essential for regulatory changes, operational stability and strategic flexibility



## Basel III: RWA

€ bn (IFRS)



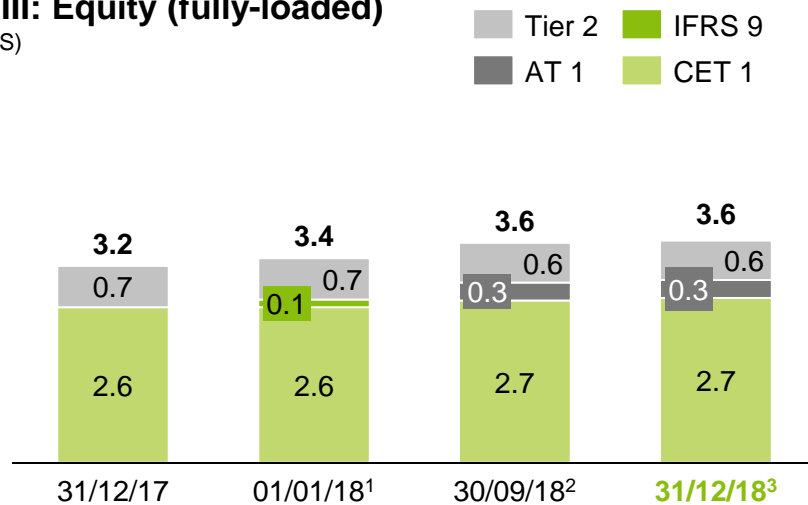
## Basel III: Capital ratios (fully-loaded)

% (IFRS)

in %	12/17	09/18 <sup>2</sup>	12/18 <sup>3</sup>	Ambition levels
CET 1	17.6	19.7	18.5	≥12.5
Tier 1	17.6	21.9	20.5	≥16
Own funds	22.2	26.7	24.9	16-18
Leverage ratio	4.5	5.3	5.3	≥3.5

## Basel III: Equity (fully-loaded)

€ bn (IFRS)



### Key drivers Q4/FY 2018:

- RWA € +1.1 bn up q-o-q due to strong new business in Q4, stable y-o-y – positive effects from LGD changes counterbalanced by portfolio growth
- Year-to-date, capital up due to positive IFRS 9 first-time application effect (effective 1 January 2018) and AT 1 issuance of € 300 mn in April 2018
- pbb retains capital buffers for further RWA challenges
  - regulation (TRIM/Basel IV)
  - potential strategic growth
  - cyclical risks/ strategic measures

### SREP requirements 2019:

- CET 1 ratio: 9.85%<sup>4</sup> (2018: 9.95% fully-loaded)
- Own funds ratio: 13.35%<sup>6</sup> (2018: 13.45% fully-loaded)
- Changes compared to 2018 requirements (fully-loaded):
  - Reduction of P2R from 2.75% to 2.50%
  - Increase of countercyclical buffer from 0.2% to 0.35%

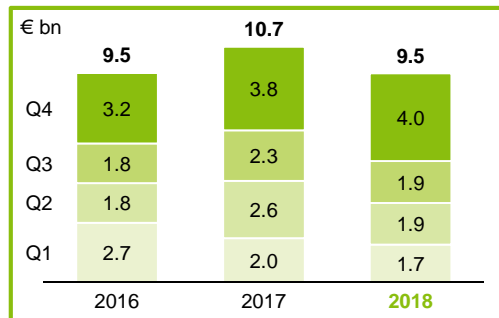
Note: Figures may not add up due to rounding <sup>1</sup> IFRS9 first-time application effect <sup>2</sup> incl. interim result Q1/18, post max. calc. dividend acc. to ECB methodology <sup>3</sup> Incl. full-year result, post proposed dividend <sup>4</sup> Incl. capital conservation buffer (2.5%) and anticipated countercyclical buffer (0.35%; actual as of 31.12.2018: 0.19%)

# New business & segment reporting

**REF: Strong new business origination while maintaining selective and risk conservative approach – financing volume up +8% y-o-y**



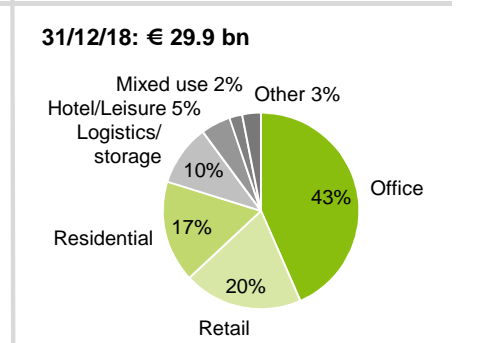
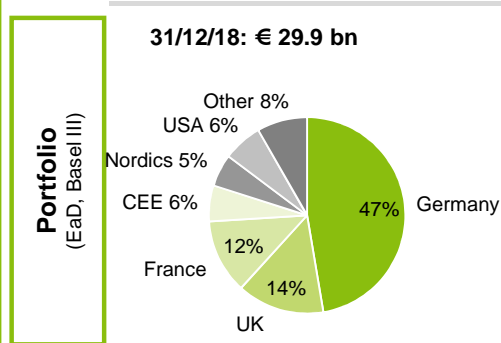
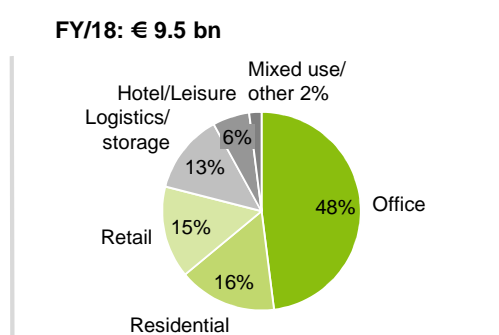
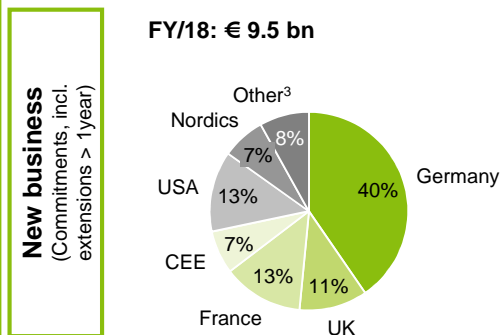
REF new business	2017	2018
Total volume (€ bn)	10.7	9.5
<i>thereof:</i>		
<i>Extensions &gt;1 year</i>	1.9	2.2
No. of deals	221	185
Ø maturity (years) <sup>1</sup>	~5.3	~4.7
Ø LTV (%) <sup>2</sup>	60	59
Ø gross interest margin (bp)	>155	~155



REF: Income statement (IFRS, € mn)	Q4/17 <sup>5</sup>	Q4/18	FY17 <sup>5</sup>	FY18
Operating income	97	101	368	391
<i>thereof:</i>				
<i>Net interest income</i>	87	96	334	372
<i>Net income from realisations</i>	15	4	45	27
Net income from risk provisioning	-4	-4	-8	-22
General administrative expenses	-46	-46	-158	-154
Net other revenues	-3	-11	-25	-33
<b>Pre-tax profit</b>	<b>44</b>	<b>40</b>	<b>177</b>	<b>182</b>
<b>Key indicators</b>	<b>Q4/17<sup>5</sup></b>	<b>Q4/18</b>	<b>FY17<sup>5</sup></b>	<b>FY18</b>
CIR (%) <sup>4</sup>	49.5	48.5	46.2	42.5
RoE before tax (%)	14.7	10.8	15.4	12.9
Equity (€ bn)	1.2	1.4	1.2	1.4
RWA (€ bn)	8.3	8.3	8.3	8.3
Financing volume (€ bn)	24.9	26.8	24.9	26.8

## Regions

## Property types



### Key drivers Q4/FY 2018:

- Strong new business origination in Q4/18 – however, high competition and margin pressure ongoing
  - Continued selective approach with focus on conservative risk positioning (avg. LTV 59%<sup>2</sup>)
  - Regional and product mix aligned to market developments (e.g. UK share down, US up; higher share in Office, lower Retail)
  - Avg. gross interest margin stable at ~155 bp
- Financing volume up +8% y-o-y due to strong new business and by lower prepayments
- Positive financial segment performance y-o-y mainly driven by strong NII and low level of GAE, despite lower prepayment fees and higher risk provisioning

Note: Figures may not add up due to rounding 1 Legal maturities 2 New commitments; avg. LTV (extensions): 2018: 57%; 2017: 54% 3 Spain, Netherlands, Belgium, Italy, Austria, Luxembourg 4 CIR = (GAE + net income from write-downs and write ups on non-financial assets)/operating income 5 Adjusted acc. to IFRS 8.29



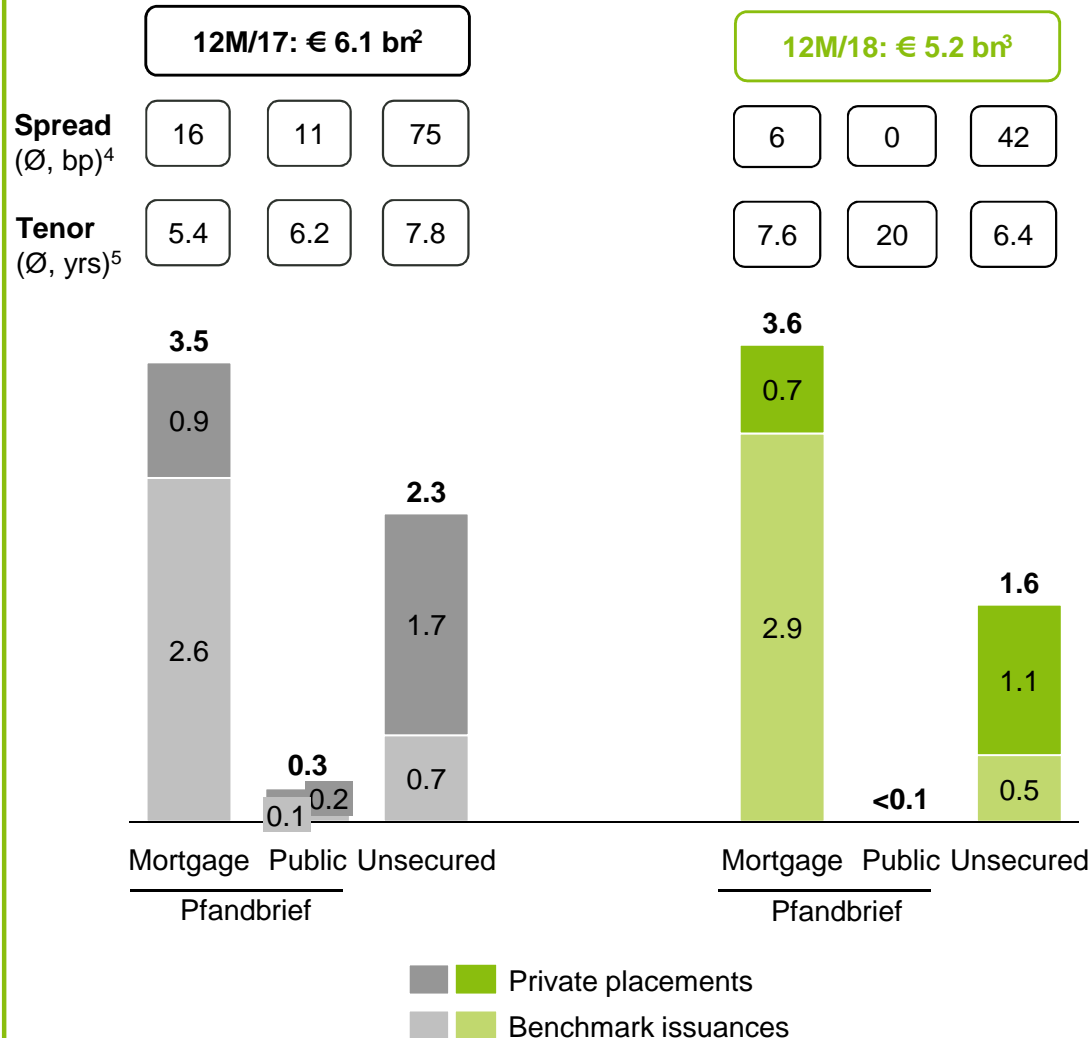
# Funding

Funding costs significantly reduced y-o-y – investor base continuous to grow with FX Pfandbriefe and “new” senior preferred bonds successfully issued



## New long-term funding<sup>1</sup>

€ bn



### Pfandbriefe

- Mortgage Pfandbrief Benchmarks: € 750 mn 5y, € 500 mn 6y, € 500 mn 9y and € 250 mn tap
- Additionally foreign currencies (£ 300 mn 3.25y, £ 50 mn tap, USD 600 mn 3y and SEK 2 bn 2y)

### Senior Unsecured

- € 500 mn 4y Senior Non-Preferred benchmark issued in Q1/18 and continuous private placements throughout the year
- € 780 mn senior preferred raised via private placements in bearer bonds, registered bonds and term deposits issued

### pbb direkt

- Total volume with € 3.0 bn (12/17: € 3.3 bn) slightly down, reflecting optimisation of funding structure
- Average maturity<sup>6</sup> increased slightly to 3.3 years (12/17: 3.1 yrs)

### AT1

- € 300 mn Tier 1 (AT1) issuance in April 2018 optimises capital structure and strengthens leverage ratio

### Funding structure and liquidity

- ALM profile and liquidity position remain comfortable (NSFR >100%; LCR >150%)

Note: Figures may not add up due to rounding 1 Excl. retail deposit business 2 Excl. Tier 2 issuance € 520mn 3 Excl. AT1 issuance 4 vs. 3M Euribor 5 Initial weighted average maturity 6 Initial weighted average maturity of term deposits

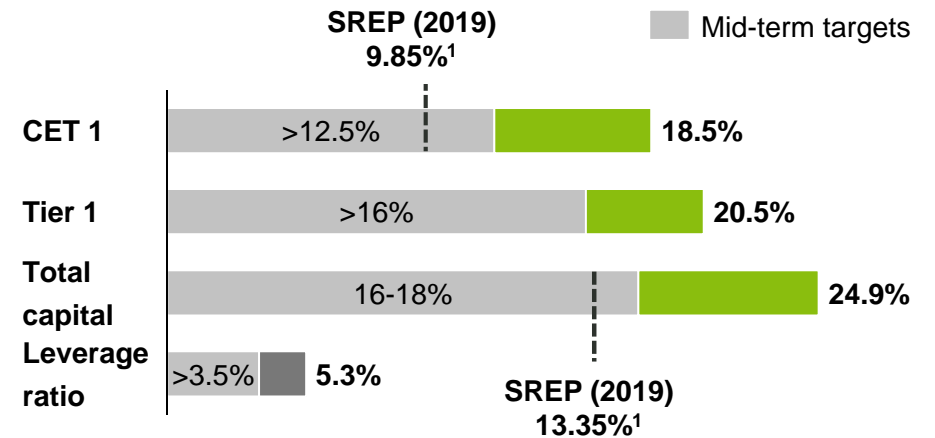
# Regulatory requirements

## Challenges for banks and capital

<p><b>TRIM</b></p>	<ul style="list-style-type: none"> <li>■ Ongoing process</li> <li>■ Finalisation in 2019 expected</li> </ul>
<p><b>EBA - Guidelines</b></p>	<ul style="list-style-type: none"> <li>■ Calibration of risk parameters</li> <li>■ Consideration of every defaulted loans, not just the completed ones</li> <li>■ New discounting policies</li> <li>■ Increase of LGD/PD and therefore RWAs expected</li> </ul>
<p><b>Basel IV</b></p>	<ul style="list-style-type: none"> <li>■ Output-floor of 72.5% (max. output of IRBA-models versus SA)</li> <li>■ Phase-in period 2022-2027</li> <li>■ Sufficient capital buffer to be adequately capitalised under Basel IV</li> </ul>
<p><b>ECB new NPL recommendation</b></p>	<ul style="list-style-type: none"> <li>■ ECB intends to strengthen European bank's balance sheets, stressing the importance of timely provisioning and write-off practices related to NPLs</li> <li>■ Establish risk provisioning for defaulted secured loans in steps up to 40% after 3 years and 100% after 7 years</li> </ul>

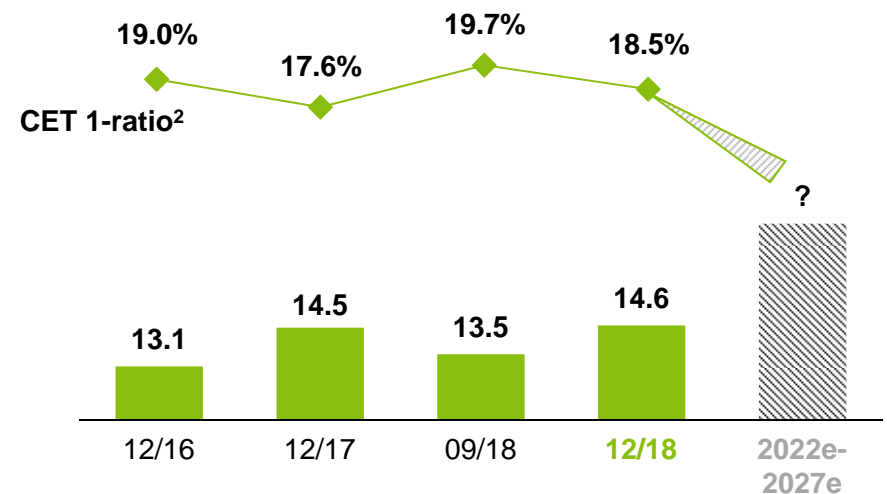
### Basel III: Capital ratios

% (IFRS)



### Basel III: RWA

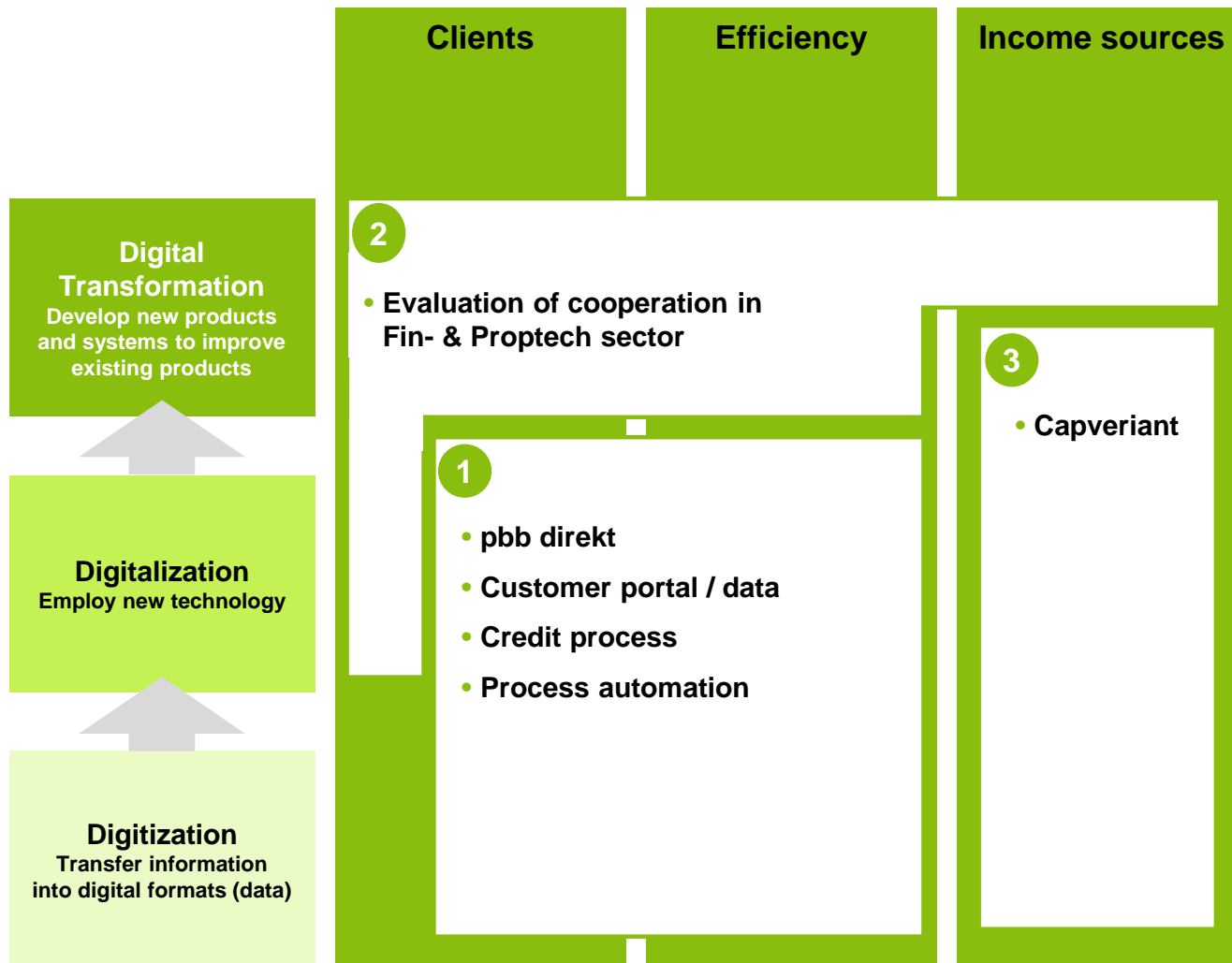
€ bn (IFRS)



<sup>1</sup> Incl. capital conservation buffer (2.5%) and anticipated countercyclical buffer (0.35%; actual as of 31.12.2018: 0.19%)    <sup>2</sup> Fully-loaded

# Digital transformation strategy

## Digitalisation as an integral concept in pbb



- 1 Short to mid- term value added in core process  
Focus on clients and efficiency
- 2 Develop business model and integrate digital ecosystem  
Focus on clients, efficiency and income sources
- 3 Develop / enhance Capveriant business model  
Focus on income sources

## Focus & Invest

Pushing forward strategic initiatives to strengthen market position and support profitability

### Focus

#### Reorganisation of PIF business

- Change of PIF strategy from „Growth“ to „Hold“ as consequence of high competition, few opportunities and low margins
- Focus on business in France (operated from Paris) and ECA-business (operated from London) only; in addition, portfolio steering measures

#### Refocus of pbb resources

- Centralisation of functions at the head-office to optimise internal processes, relocating from London, Paris, Madrid and Eschborn

### Re-investment of freed-up resources

### Invest

#### US business

- Lean setup Representative Office since mid 2018
  - Expanding into primary business in established East Coast locations, while maintaining syndication business
  - Carefully expanding into new regions (Chicago, Los Angeles, San Francisco and Seattle) – initially syndication only
- Additional personnel resources will be made available by internal reallocation in support units outside US

#### Digitalisation

- New business area „Digitalisation“ established
- Redesign client interface, improve efficiency of processes, define and implement new business models

## Outlook 2019



Operating trends	2017	2018	Guidance 2019
<b>Real Estate Finance (REF)</b>			
New business volume <sup>1</sup> (EUR bn)	10.7	9.5	EUR 8.5-9.5 bn
Avg. gross margin (bp)	>155	~155	Slightly lower
Financing volume (EUR bn)	24.9	26.8	Moderate increase (strategic portfolio)
<b>Public Investment Finance (PIF)</b>			
Avg. gross margin (bp)	>100	>60	Slightly higher
Financing volume (EUR bn)	7.0	6.4	Stable (strategic portfolio in “hold” mode)
<b>Value Portfolio (VP)</b>			
Financing volume (EUR bn)	13.8	13.1	EUR ~12 bn (non-strategic portfolio in run-down mode)
Income statement (IFRS, EUR mn)	2017	2018	Guidance 2019
Net interest and commission income	415	456	Slightly lower
Loan-loss provisions	-10	-14	10-15 bp EL on REF financing volume
General administrative expenses	-199	-193	Slightly higher
<b>Pre-tax profit</b>	<b>204</b>	<b>215</b>	EUR 170-190 mn
Key ratios (%)	2017	2018	Guidance 2019
RoE before taxes <sup>2</sup>	7.4	7.1	5.5-6.5%
RoE after taxes <sup>2</sup>	6.0	5.9	4.0-5.0%
CIR	47.0	44.2	Slightly higher
CET1 ratio (fully loaded)	17.6	18.5 <sup>2</sup>	Significantly above SREP requirement of 9.5% + countercyclical buffer of 0.35% (2018 <sup>3</sup> : 9.75% + 0.2%)

Note: Figures may not add up due to rounding    1 Incl. extensions > 1 year    2 Taking into account the AT1 coupon for 2019    2 Incl. full-year result, post proposed dividend    3 Fully-loaded

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