Annual press briefing

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Andreas Arndt
CEO

Deutsche Pfandbriefbank AG

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Deutsche Pfandbriefbank AG
Communications
Freisinger Strasse 5
85716 Unterschleissheim, Germany

1. INTRODUCTION

Ladies and Gentlemen, good morning.

Welcome to the annual press briefing of Deutsche Pfandbriefbank AG. I would like to thank you for your interest in pbb and your attendance at today's meeting. I would also like to welcome all those following today's press briefing via the webcast.

pbb achieved a **good result** for 2018, in an environment that remained challenging. At €215 million, Group profit before taxes exceeded the previous year's figure by approximately 5%. [CHART #1]

- This result was largely driven by **new business** generated (€10.5 billion), resulting in a significant portfolio increase, and stable **gross margins on new business** (approx. 155 basis points (bps)) in our main business area real estate financing.

  Interest expenses were lower on the back of lower funding needs, as well as new issuance at more favourable conditions.

  We thus increased our most important source of income, the aggregate of net interest income and net fee and commission income, by around 10%, to €456 million (2017: €415 million).

- Net income from **risk provisioning** for the loan portfolio, including higher net additions (up by €4 million to €14 million), and lower **general administrative expenses** (€193 million; 2017: €199 million) were both largely stable.

  In other words: 2018 was, once again, a good year – one which emphasised our operating strength.

On this basis, the Management Board and the Supervisory Board will propose to the Annual General Meeting to pay a **dividend** of €1.00 per share, meaning that shareholders would receive approximately 81% of the consolidated profit of €167 million attributable to them. Based on the – unfortunately very low – Xetra year-end closing price of €8.74, this would imply a dividend yield of 11.4%.

We anticipate generating another good result for **2019**. However – and I have already mentioned this on other occasions – growth cannot continue forever, and we adhere to our risk-conservative approach due to the challenging market and competitive environment in commercial real estate financing.

- We aim to generate **new business** in the volume of €8.5-9.5 billion in commercial real estate financing (including extensions by more than one year). Taking into account the volume of €9.5 billion achieved in 2018, our target is still ambitious when one considers the very mature real estate cycle. We also anticipate slightly lower **gross margins on new business**.

- We will aim to generate profit before taxes in the range of €170-190 million.

In 2019, we will continue to **invest** in the Bank and for our customers, i.e. in the further expansion of the US business and digitalisation, financing these investments by saving costs in other areas, since we aim to adhere to our cost discipline.

2. FINANCIALS

So much for the introduction; I will now approach the topic of our income statement, and thus the individual figures.

After that, I will comment on some major trends, and especially the impact on pbb and the consequences we have derived thereof. Finally, I will provide a specific outlook for the year 2019.

As usual, I will focus on the most important aspects of the income statement; it is not my intention to present all items in detail. For further information, please refer to our Investor Relations presentation, from which we also took the tables and diagrams available to you. Our annual report will be published at the end of March.

Please note that all figures are consolidated results for pbb Group; the financial statements were prepared in accordance with IFRS. Whilst the financial statements have already been audited, the figures must be formally considered 'preliminary' until the financial statements have been approved by the Supervisory Board.

2.1 Net interest income and net fee and commission income

I already commented on **net interest income** in my introduction. Net interest income was up 11% in the year under review, to €450 million. [CHART #2]

- The fact that the average volume of Commercial Real Estate Finance rose by €1.4 billion, to €26.8 billion, thus clearly more than offsetting the lower Public Investment Finance portfolio, contributed to this development.

  Whilst we achieved growth in 2018 with a respectable volume of new business (€10.5 billion), this figure nevertheless fell short of the very good year that was 2017 – in fact, on purpose. Materially lower **early repayments** were the main driver behind the still-significant portfolio growth. By the way: to see the extent of early repayments, one has to take a look at the lower early termination fees: in 2018, they accounted for approximately €16 million. In 2017 that figure was €31 million. I should add that you will no longer find this item in net interest income, but in the item net income from realisations.

- The positive development of net interest income was particularly driven by lower **interest expenses**, reflecting maturities of higher-yielding liabilities – together with the fact that our overall funding requirements were lower, and we also benefited from clearly lower funding rates for new issues.

- The **average margin** of the total portfolio was stable, relative to the previous year.

Net fee and commission income of €6 million did not materially contribute to pbb's success (2017: €8 million). However, this is nothing new or special: the larger part of our fee and commission income can be amortised, and is thus attributed to net interest income.

2.2 Net income from risk provisioning

With net additions of €14 million, **risk provisioning** was higher than in the previous year (2017: additions of €10 million), but once again below our forecast. [CHART #3]

- It resulted mainly from **net additions to stage 3 impairments** in the amount of €19 million, almost entirely relating to financings provided in the retail sub-segment of **shopping centres in the United Kingdom**.

    - Retail property accounts for a total of approximately 30% of our UK portfolio; we have in fact reduced it from €2.5 billion to €1.5 billion over the last three years.

    - However, please bear in mind that not all retail is the same. The aforementioned shopping centres sub-segment, for example, accounts for a relatively small share.

    - No payment defaults occurred with the loans for which we have recognised provisions; what is more, the level of interest and principal coverage remains comfortable. The impairments are solely attributable to new market valuations, which breached contractually agreed minimum quotas in loan-to-value ratios.

  I will return to the topic of retail properties later.

- The additions to risk provisioning were partly compensated by **net reversals of stage 1 and 2 impairments** in the amount of €9 million, which were primarily attributable to holdings in the portfolio set to mature in the short term and/or shortened remaining terms, as well as on the risk parameters of the existing portfolio.

- An additional €5 million in provisions was recognised for contingent liabilities or undrawn loan commitments, due to changes in **model parameters**.

2.3 General administrative expenses and net income from restructuring

At €193 million in the 2018 financial year, **general administrative expenses** were slightly below the previous year's level of €199 million. Please note that – due to the first-time application of IFRS 9 – impairments now account for an individual item in the income statement (net income from write-downs and write-ups). We have retrospectively adjusted the figure for 2017, in order to ensure comparability. [CHART #4]

- **Personnel expenses** thus declined, to €114 million (2017: €119 million). The number of staff members (in full-time equivalents) rose from 744 (as at year-end 2017) to 750. However, the previous year's figure had been burdened by provisions recognised.

- At €79 million, **non-personnel expenses** were almost in line with the previous year's level (2017: €80 million), which, at first, does not sound very spectacular. In this context, however, it is important to note that non-personnel expenses in the year under review – and especially in the fourth quarter – included investment expenses, for example for the expansion of the US business or for our CAPVERIANT platform for Public Investment Finance.

Net income from restructuring is related to, but not formally a part of general administrative expenses. At negative €9 million, it includes additions to provisions in connection with the reorganisation of Public Investment Finance, and the centralisation of infrastructure tasks. I will discuss the focusing measures in more detail later.

2.4 Results

I would now like to turn to our **results**. [CHART #5]

- pbb concluded the 2018 financial year with **profit before taxes** of €215 million, therefore exceeding the previous year's figure by around 5% (2017: €204 million).

- **Profit after taxes** amounted to €179 million, compared with €182 million for the same period of the previous year.

- Hence, we report a slightly lower profit after taxes for 2018 than 2017 – despite higher profit before taxes – due to the fact that results for 2017 benefited from positive deferred tax effects, which did not materialise again in 2018.

- As way of switching to a new topic of my speech, the dividend proposal, I would like to note the coupon payment for the €300 million additional tier 1 capital (AT1) issue, which we placed in April 2018 in order to optimise pbb's capital structure. This issue is eligible for inclusion in equity in accordance with IFRS. Taking €12 million in pro-rate coupon payments into account, consolidated profit of €167 million forms the basis for the dividend proposal for our ordinary shareholders. As you are aware, we do not have any preferred shareholders.

2.5 Dividend proposal

We aim to **distribute €134 million, or 81%** of profit attributable to ordinary equity shareholders (€167 million), which equates to a dividend of €1.00 per share. The Management Board and the Supervisory Board will propose to put to vote a distribution of said amount to the Annual General Meeting on 7 June 2019. How did we calculate this figure?

- The proposal comprises a **regular dividend** of 50% plus a **special dividend** of 25% – 75% in total – applicable to the upper end of the original guidance for profit before taxes of €170 million. Deducting Group taxes and the coupon payment for AT1 capital, this results in a figure of €130 million and a corresponding distribution of €97 million.

- In addition, we want to distribute **income over and above** the original guidance of €37 million (after remaining taxes) in full.

As in previous years, our shareholders continue to participate significantly in pbb's success. Based on the Xetra year-end closing price, we achieve **a dividend yield** of 11.4% for 2018. Performing this calculation based on the average Xetra price for the year (volume-weighted daily closing price), the yield still amounts to 7.9%.

2.6 Key regulatory capital ratios and SREP

Key regulatory capital ratios improved as per 31 December 2018. Effects from the first-time application of IFRS 9 increased equity, whilst risk-weighted assets remained stable year-on-year. The tier 1 and own funds ratios benefitted from AT1 capital issuances. [CHART #6]

As at 31 December 2018, the CET1 ratio rose to 18.5% (31 December 2017: 17.6%), the own funds ratio to 24.9% (22.2%) and the leverage ratio to 5.3% (4.5%). All ratios are "fully loaded", i.e. after expiry of all Basel III transitional regulations, and including appropriation of profits.

Within the scope of the Supervisory Review and Evaluation Process (SREP in short), supervisory authorities assess and measure the risks that banks are exposed to. Regulators lowered **SREP requirements** for pbb's CET1 ratio for 2019 to 9.85% (2018: 9.95%, fully loaded). The pillar 2 requirement sank from 2.75% to 2.5%, while the countercyclical buffer rose from 0.2% to 0.35%.

2.7 Total assets

Total assets (€57.8 billion) declined slightly compared to 1 January 2018 (€58.1 billion, including application of IFRS 9).

3. TRENDS

This brings me to the trends in Commercial Real Estate Finance. I will talk about the following topics:

- Markets, new business, and portfolio
- Funding and capital markets
- Regulation and capital
- Innovation and investments

3.1 Markets, new business, and portfolio

3.1.1 Review of 2018

In 2018, **real estate markets** developed solidly once again: transaction volumes remained on a high level, prices and rents were stable, and vacancies were on a low level. Despite all this, risks of a cool-down increased. As such, even though yields have fallen to historical lows, a trend reversal is already visible in some sub-markets.

Competition amongst real estate finance providers also failed to abate, making it even more difficult to generate new business with a conservative risk profile and appropriate profitability. Margins on new business generally remained under pressure, impeding the efforts of commercial property finance providers to enforce contractual covenants.

pbb responded to this situation by **selecting its new business** even more carefully, and by clearly stipulating that the Bank's high risk standards are to be adhered to – in cases of doubt, to the detriment of the new business volume. In 2018, pbb once again fared well with this strategy. [CHART #7]

- pbb generated total new business of **€10.5 billion** in 2018 (2017: €11.6 billion, including extensions of more than one year). We thus reached exactly the middle of our target range, since we had taken a cautious, forward-looking stance (due to the challenging market environment) when making our forecast at the beginning of the year.

  New business originated (including extensions of more than 1 year) included approx. €9.5 billion in **commercial real estate finance** (2017: €10.7 billion). We were able to largely preserve our gross margin on new business, at approximately 155 basis points (2017: >155 bps).

- However, we not only generated less new business; we also **weighted individual markets differently** for the purpose of portfolio management, because the stability of markets varies along the cycle.

  - As such, the share of new business generated in the **United Kingdom** was reduced; whereas the United Kingdom accounted for a share of 18% in 2016 and 13% in 2017, in the year under review it only amounted to 11% – or €1 billion. Around 30% of this new business related to stable extensions, for names we are well acquainted with.

    Due to the uncertainty arising from Brexit, we are handling business in the United Kingdom even more selectively than before. We take a look at tenants and their stability, as well as at the sustainable competitive position and potential value fluctuations of a property.

Uncertainty will prevail until Brexit implications become more transparent. Nevertheless, we will remain active in the United Kingdom; and that is something we have also told our clients. We expect that we will continue to see a corresponding market environment.

- New business in the **United States**, however, where we took up business in the second half of 2016, has increased. In 2018, we generated new business there of €1.2 billion – i.e. 13% of our total new business – compared to €900 million or 8% in 2017.

- The share of new business in **Germany**, on the other hand, sank to 40 % in 2018 (2017: 49%). We also follow a selective approach to new business in our domestic market, in which it was not so much the risk selection but rather the price selection which resulted in a reduced share in new business. At 47%, the share of German business in the portfolio remained at a high level (2017: 49%) – this is in line with our strategy.

- Of course, we do not only manage our portfolio with regard to regions, but also with regard to **property types**. In this connection, I would like to return to the topic of **retail properties**. Not all retail is the same; momentum in the sub-segments is highly varied, also across regions.

  - **Shopping centres** in the traditional sense are most impacted by the current trends in online retailing, by over-capacity and insufficient adjustment speed.

    In future, shopping centres will only be successful if they have the right tenant mix and quality of stay for a great shopping experience, and if they are dominant in the region. From our point of view, such shopping centres are still financeable. Centres which do not fulfil these criteria (or only partially) have been experiencing a significant increase in vacancy rates within the last two years, leading to investors in this sector being more cautious.

    Retail parks, in contrast, remain stable thanks to their speciality features or their local supply function – provided there is a corresponding concentration of various suppliers in the respective centre or the direct vicinity. Stand-alone 'big boxes' or specialist markets without any relationship to their direct surroundings are very difficult to let.

  - **Inner-city retail properties** in top locations remain attractive. Whether or not a property can be financed is a function of tenant quality and contract terms on the one hand, and the prevailing rent levels on the other hand. For instance, against the background of strongly exaggerated rents in some metropolitan areas (such as New York City), a distinct weakening of the commercial real estate market with a significant portion of retail properties can be observed.

  - Finally,special properties such as **logistics parks** or **factory outlets**. Whilst the latter require a highly customised valuation approach, logistics properties are an attractive, growing asset class, given the still-accelerating delivery turnarounds, due to the growing share of online commerce.

3.1.2 Market outlook for 2019

Until now, indicators for **2019 have not been pointing to a material market correction**. Most market participants, however, feel that the upward phase of the current cycle has already been very long.

We at pbb do not expect a significant market correction in 2019 either, but the **instability potential** is increasing from our point of view.

- I had already mentioned the **yields** which are at absolute lows.

- Furthermore, some **sub-segments are experiencing momentum peculiar to themselves**.

  This applies, for example, to the overall real estate market in the United Kingdom. The reason: uncertainty as a result of Brexit. As I just mentioned, retail properties in certain sub-segments must be seen critically.

  Whilst we consider the office property markets in the big cities as largely stable overall, some special developments are worth noting. For instance, co-working office providers are playing an increasingly important role in terms of demand; in London or New York, they are already the largest tenants. Such spaces are sub-let, generally at clearly shorter rental terms – it is crucial that they can in fact be sub-let, even during times of crisis.

With regard to **individual loans**, pbb will thus have to focus even more strongly on the **quality** of

- the **property** to be financed – focusing on value stability;

- the **investors we work with** – they should be able to provide additional finance, and should have stood the test of multiple cycles; and

- the **covenants**. The latter are an important starting point for finance providers, in order to respond to a weakening performance of a financing; and they also determine the action framework for borrowers and lenders.

  I am commenting on this topic because this is a phenomenon which we might come across more often in future: in an environment with low real estate yields and high prices, even small changes in yield can result in significant valuation changes, which in turn may trigger the breach of valuation covenants. This applies in particular where covenant levels are set strictly, in order to enable the Bank to discuss injections of additional equity (or higher redemptions) at an early stage in the event of valuation changes. pbb – you will probably already have guessed – is heading down this conservative path.

- As such, impairments as a consequence of strictly set – i.e. conservative – covenant levels after valuation or yield changes in some markets are the result of responsive and cautious risk standards aiming at injecting additional equity into a transaction at an early stage.

As a result of the market environment and for our loan portfolio, we must **continue to manage our portfolio in a targeted manner** and overweight business in the US, whilst reducing our exposure to the United Kingdom. We also need to underweight retail properties and maintain a cautious stance vis-à-vis development financings.

All in all, however, **new business** has developed positively at the beginning of **2019**.

3.2 Funding and capital markets

3.2.1 Review of 2018

The lending business remained strong in 2018, as were our successful **funding activities**. [CHART #8]

As funding requirements could be reduced and new issues had lower coupon rates than maturing liabilities, we were able to significantly downsize our **interest expenses** on funding. In specific figures:

- We raised **new long-term funding** of €5.2 billion (2017: €6.1 billion). **Pfandbriefe** accounted for approximately €3.6 billion (2017: €3.8 billion), **unsecured issues** for €1.6 billion (2017: €2.3 billion). The issue of **additional tier 1 capital** (AT1 capital) added another €0.3 billion.

  Once again, pbb placed issues in **Euros**, as well as in the **foreign currencies** pound sterling, US dollars, and Swedish krona.

- **Issuance spreads** – the risk premia on the 3-month Euribor reference interest rate crucial for determining funding costs – narrowed considerably during the course of the year, to an average of 6 bps for Mortgage Pfandbriefe, Euribor flat for Public Sector Pfandbriefe and 42 bps for unsecured funding instruments (2017: 16 bps, 11 bps and 75 bps, respectively).

- Since the corresponding legal framework was established in mid-2018, **unsecured funding instruments** have been divided into 'senior non-preferred' debt (previously 'senior unsecured') and 'senior preferred' debt. Senior preferred is a new class of debt, which offers a better rating and lower risk premia thanks to its positioning in the debt structure and the liability cascade, between Pfandbriefe and senior non-preferred bonds.

  Risk premia for funding in the senior preferred debt class were 33 bp for pbb in 2018, significantly below the those for senior non-preferred issues at 51 bp; this yields an average for both classes of 42 bp.

- Financing activities were concentrated on the first half of the year; spreads widened at the end of the first half-year and during the second half of the year (in a first sharp surge in May due to the situation in Italy, and once again in October 2018 after the equity market downturn in the US, and a second round of uncertainty in Europe).

  At the beginning of 2019, the spread differential between the two debt classes widened further, to around 40 bp: driven by market developments, spreads for unsecured 'non-preferred' issues continued to widen considerably, whereas the increase in the 'preferred' segment was less pronounced.

3.2.2 Market outlook for 2019

At present, we assume that, even though spreads have widened significantly, **during the current year 2019 we will be able to realise average funding costs** on new issues which will remain below interest expenses on the existing portfolio. The cost benefits of new over maturing issues should, however, be significantly lower than in the previous year.

The Bank's good position in a challenging funding enviornment was also evident in our **first benchmark issues in 2019**: the spread for a Mortgage Pfandbrief, which we issued on 21 January, amounted to +8 bp; for a 'senior-preferred' bond, it was +80 bp. Even though these costs were higher than in the previous year, they were still below the average of the existing inventory – as well as below the spreads for most competitors with the same rating. In comparison, pbb is thus still well-positioned. Both issues were heavily oversubscribed: the Mortgage Pfandbrief more than three times, and the unsecured bond more than three and a half times. The order book was broadly diversified with regard to names and regions. All of this indicates that the capital markets – and the bond market – continue to appreciate our conservative approach to risk.

Moreover, we have **room for manoeuvre regarding the management and cost optimisation** of our liabilities side.

- Leveraging its comfortable situation in terms of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) – thanks to its sizeable inventory of subordinated senior non-preferred issues – pbb will be able to focus its unsecured issuance on the clearly more attractive 'preferred' class over the coming years.

- On the other hand, pbb has its proven and scalable **pbb direkt** platform for the retail deposit-taking business with private investors since an early digitalisation initiative in 2013. Retail deposits accounted for some €3.0 billion as at year-end (12/2017: €3.3 billion).

3.3 Regulation and capital

The further increasing complication of the regulation complex belongs to the reliable invariables of our banking existence. [CHART #9]

In this context, we will basically continue with the topics seen in the last few years: **TRIM, EBA Guidelines and Basel IV**.

- The effective direction of these regulatory initiatives is obvious: they have already resulted, and will continue to result, in an **increase of risk-weighted assets** and thus in a higher level of capital requirements in the banking business.

- As you know, pbb is **well-capitalised**. Our CET1 ratio is currently at 18.5%, consciously including a buffer in order to absorb changes brought about by regulation. We anticipate that all three mentioned regulatory initiatives, i.e. TRIM, EBA Guidelines, and Basel IV, will – as a whole and over time – significantly reduce the CET1 ratio until 2027. However, we also expect to lie comfortably above the threshold values we set ourselves – and that means considerably above the regulatory requirements. In this way, we will not only be able to meet regulatory requirements, but we will also be able to deal with potential cyclical implications or strategic requirements.

A new aspect within regulatory guidelines is the requirement that banks must fulfil **minimum coverage ratios for non-performing loans** when determining regulatory capital requirements.

- This means that for an **uncollateralised, non-performing loan**, risk provisioning is required for the full loan amount after two years – which we have always practised.

- But even for a **collateralised non-performing loan**, banks must put aside at least 40% after three years, and the entire loan sum after seven years, subject to gradual increases.

- This regulation is **expected to be enshrined in the law in 2020** – needless to say, we are already looking into this issue in great detail today.

  The precise impact is very difficult to perceive from today's point of view, if only due to the fact that the non-performing loan (NPL) portfolio is subject to fluctuations.

  On a general note, however, pbb's NPL portfolio is low: as at year-end 2018, we reported non-performing loans of €348 million, i.e. 0.6% of our portfolio. The volume of workout loans – where there are no signs of recovery – amounts to a mere €16 million. The largest part of our non-performing exposures is classified as restructuring exposures, where we actively cooperate with clients to find a solution that is as value-preserving (i.e. risk-mitigating) as possible.

3.4 Innovation and investments

Our aspiration to achieve sustainable development – at pbb, as well as with regard to the dynamics of our environment – requires **innovation and investment**. Whilst we advanced with small steps in many areas, we had two special **initiatives** to show for in 2018.

3.4.1 US business

On the one hand, we built up personnel resources, so as to **further expand the real estate financing business in the United States**.

The **representative office in New York** with an adequate local team is the clearest signal. We will further expand the sales capacity of this team in 2019 and 2020. Our colleagues in New York are supported by additional dedicated resources in Unterschleissheim and London – especially in the area of risk management. In this context, we stick to our principle of centralised and uniform decision-making processes.

With this position, we are now able to **expand our activities – always in a moderate and cautious manner**.

- In our East Coast target markets of New York, Boston and Washington DC, we now aim to do business on the **primary market**, too, instead of solely focusing on syndications in the secondary market.

- We will also extend our **reach**, offering our services to new sub-markets (Chicago, Los Angeles, San Francisco, Seattle), where we will exclusively engage in the syndication business at first – in line with our East Coast approach so far.

3.4.2 Digitalisation

On the other hand, we will further promote the **digitalisation** of pbb.

In order to achieve this, we established the organisational framework in 2018, and developed the main features of our vision.

We are approaching the topic of digitalisation with three **goals**, and aim to achieve the following: [CHART #10]

- enhance the **interfaces** to our clients;
- increase the **efficiency** of our internal processes; and
- tap into new **sources of income**.

To some extent, our digitalisation approach is agile, since we have already **implemented first initiatives**, whilst simultaneously continuing to work at the comprehensive target image of a digital pbb.

- We launched the first stage of a **customer portal**; currently, we are simplifying the data exchange with our property developers client group. We will considerably expand this portal in the course of this year, to include other functions in real estate financing.

- Our **CAPVERIANT** platform for municipal financing was technically launched in May 2018. CAPVERIANT is one of only a few service providers in our industry who are completely in the cloud.

  It is our goal to improve the market and price efficiency in municipal financing by bringing together loan supply and demand on a pan-European marketplace, to simplify processes, and to offer additional services to public-sector entities as well as to institutional investors. The extent of change to the market structure would be more or less as extensive as the introduction of electronic trading systems was for exchange trading.

  Since the technical launch of the platform, we have increasingly been contacting clients. Client acquisition is picking up speed: around two dozen municipalities and investors have registered, with another 40 currently undergoing the onboarding process.

  We are looking to also launch CAPVERIANT in France in the spring.

3.4.3 Focusing as a means to internally finance investments

These innovations require **investments**, which we will once again compensate with **cost savings** – firstly, by relocating tasks from satellite locations to the head office. Secondly, we will adapt our business activities in Public Investment Finance to the market conditions. [CHART #11]

- **Relocating functions** from foreign locations, and from Eschborn to our head office, will further enhance our efficiency. The relocation concerns functions which are already largely being handled in Unterschleissheim.

  Talking about the head office and Unterschleissheim: we will be moving lock, stock and barrel to new office buildings in **Garching** this summer, marking a complete departure from our present Unterschleissheim home. Garching offers us a better micro and macro location – and especially the advantage of modern offices within a modern building layout, which should further improve cooperation.

- In recent years, the **Public Investment Finance business** has been characterised by significant reluctance of the public sector regarding (privately financed) infrastructure investments on the one hand, and weakening margins on the other. In view of this background, we decided to reposition this business area at pbb.

  - We will concentrate on **France**, which is where we have the strongest market penetration. Here, we aim to continue to underwrite PPP loans and investment loans in the primary market. In future, we will operate with a significantly smaller team in France, but still be based in Paris.

    Public Investment Finance (PIF) activities at the Madrid and London offices will be discontinued.

  - We already significantly reduced PIF business operations in Germany some time ago. The **remaining ECA-backed export credit finance business** will also cease, except for some residual activities in the areas of syndication and loan management.

  - The **back-office units** attributable to this business will also be adjusted to the reduced business volume.

By **continuing to focus, we will finance investments** for pbb's future, and thus also new tasks and new job positions. The headcount reduction through focus, and the growth through the investment in our US business and digitalisation more or less offset each other. We implemented the necessary changes in a careful manner, taking personal concerns of individuals into account, and involving the Works Council where appropriate.

4. TARGETS 2019

That was it for the trends. This brings me to our specific guidance for 2019: [CHART #12]

- We aim to generate new business in the volume of €8.5 billion to €9.5 billion in **Commercial Real Estate Finance**, including extensions of more than one year. The higher end of this guidance equates to the new business volume originated in 2018.

  We expect the strategic financing volume to slightly increase, whilst the average gross margins on new business should slightly decrease.

- We have resolved to keep the newly aligned **Public Investment Finance** portfolio largely stable. We expect the gross margins on new business to slightly increase in this area.

- We are targeting **profit before taxes** of between €170 million and €190 million, and we expect marginally lower **net interest and commission income**.

  We will adhere to our conservative approach to **loan loss provisions**, expecting risk costs in the order of 10 to 15 bp on the Real Estate Finance portfolio, as always without implying individual events or specific requirements.

  We anticipate **general administrative expenses** will rise slightly. Since investment expenditure is set to increase, we shall save costs in other areas.

As you can see, this guidance reflects what I said at the beginning of my speech: we adhere to our risk-conservative approach due to the challenging market and competitive environment in commercial real estate financing, and yet we anticipate generating another good result for 2019.

5. SUMMARY

Ladies and Gentlemen.

Please permit me now to summarise my comments:

- pbb achieved a **good result** for 2018, which is a sign of our **operating strength**.

    - We increased our most important source of income, the aggregate of **net interest income and net fee and commission income**, by 10%.

    - Our **risk costs** for the lending business and **general administrative expenses** are lower than we had planned.

- We are, and will remain, **cautious and risk-conservative**, so that we can cushion the risks of cyclicality. This includes preserving a strong capital base and stable funding, as well as a stable rating.

    - We will **continue to act prudently with regard to new business**, especially in 2019, since we hold the real estate cycle to be very mature.

    - This approach will be reflected in the result – low risks lead to lower income, but still to a **good result in difficult times**.

- We are **investing in pbb's future**, financing these investments with our focused approach.

    - We are expanding our business in further **US** sub-markets.

    - In our opinion, **digitalisation** is both an opportunity and a challenge – in order to improve the interfaces to our clients, enhance the efficiency of our processes, and generate additional income.

- We will distribute an **attractive dividend** to our shareholders.

    - We will propose to the Annual General Meeting to distribute a **dividend** of €1 per share.

    - Since its initial public offering, pbb has established itself as a 'dividend share', consistently offering an attractive dividend yield. Subject to the Annual General Meeting's resolution, the dividend yield is at 11.4%.

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Thank you very much for your attention. Please do not hesitate to ask any questions.