pbb continues strong performance in 2019 – PBT of EUR 216 mn

Preliminary Annual Results 2019
Media Briefing, 4 March 2020

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CEO

Highlights
Operating and financial overview

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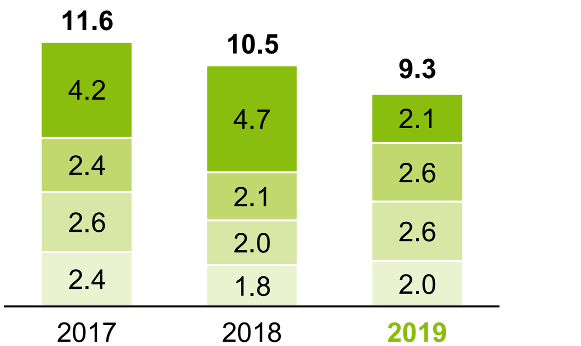
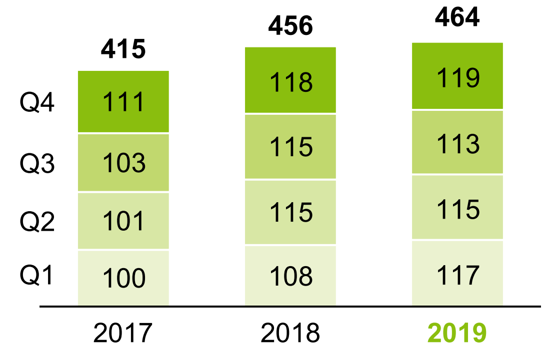
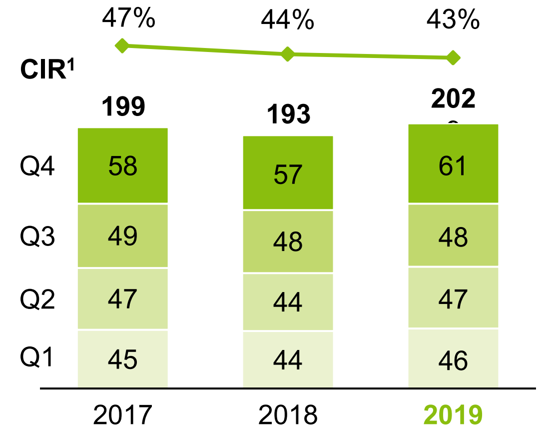
New business
€ bn (commitments, incl. extensions >1 yr)



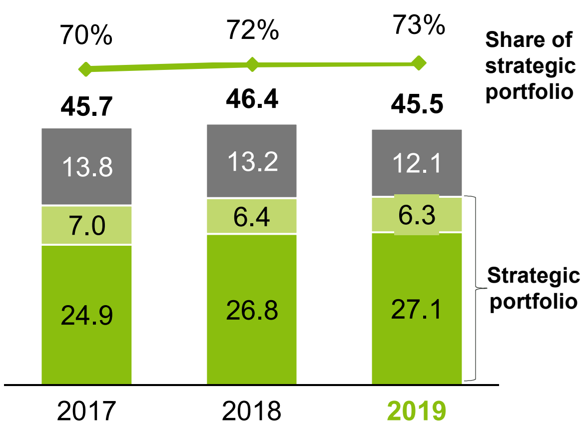
Net interest and commission income
€ mn (IFRS)



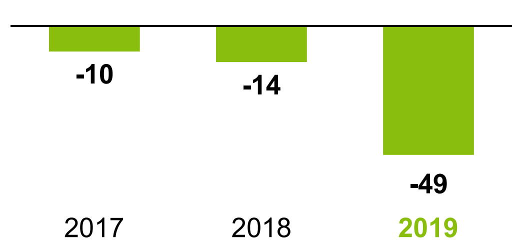
General and admin. expenses
€ mn (IFRS)



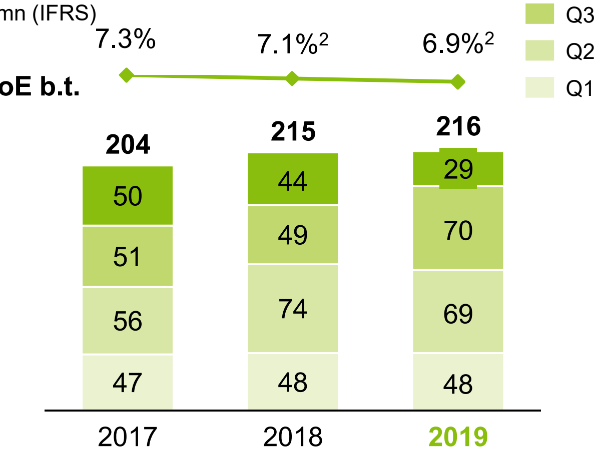
Portfolio
€ bn (financing volumes)



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 2 Taking into account AT1 coupon (2018: € 12 mn; 2019: € 17 mn)

Financials

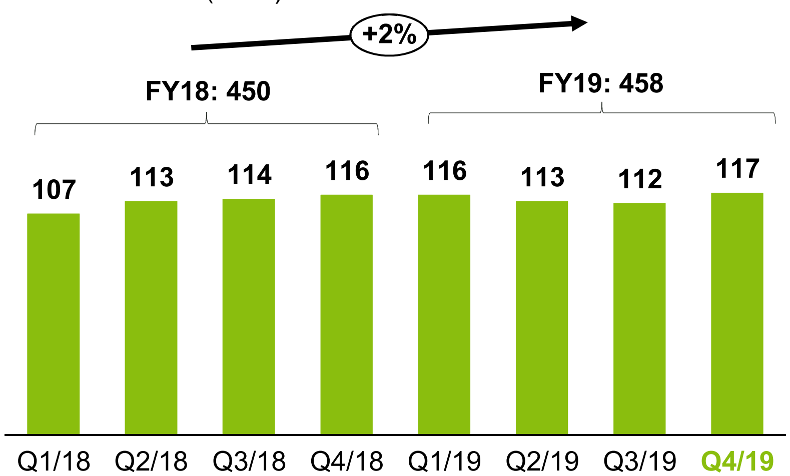
NII benefited from higher financing volume and higher portfolio margin and was supported by lower funding costs – significantly higher prepayment fees

Income from lending business (€ mn)

	Q4/18	Q4/19	FY18	FY19
Net interest income	116	117	450	458
Net fee and commission income	2	2	6	6

	Q4/18	Q4/19	FY18	FY19
Net income from realisations	9	17	32	48

Net interest income (€ mn)



Key drivers 2019:

- **NII** slightly up y-o-y
  - Avg. REF financing volume up by € +1.6 bn y-o-y to € 27.4 bn (2018: € 25.8 bn) overcompensating for slightly lower average REF portfolio margin and scheduled run-down of value portfolio
  - NII continues to benefit from floor income
  - As before: Low/negative interest rates lead to visibly lower income from equity and liquidity book; exacerbated by maturity of high yield bond in Q2
  - Funding costs reduced further y-o-y due to new funding at spreads below maturities – positive effect expected to diminish over time
  - Summing up all effects: Avg. total portfolio margin slightly up y-o-y due to higher share of strategic portfolio while liabilities support NII through relative spread advantage from new placements
- **Net income from realisations** positively driven by significant higher prepayment fees y-o-y
  - Prepayment fees: € 39 mn (2018: € 16 mn)
  - Realisation fees[1]: € 9 mn (2018: € 16 mn)

1 Incl. sale of assets and redemption of liabilities

Financials

Risk provisioning mainly reflecting the expectation of worsening market conditions as well as revaluation effects on UK shopping centres

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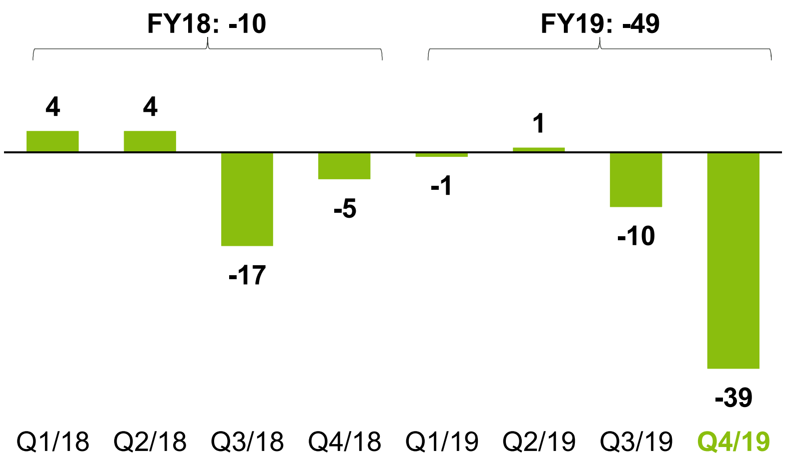
Net income from risk provisioning

€ mn

	Q4/18	Q4/19	FY18	FY19
Net income from risk provisioning	-5	-39	-14	-49
thereof				
Stage 1	-2	-15	-	-15
Stage 2	1	-7	9	-1
Stage 3	1	-18	-19	-33
other loan loss provisions[2]	-5	1	-4	-



Key drivers 2019:

- **Risk provisioning** mainly driven by two effects:

  (a) Provisioning for Stage 1 and 2 accounting for expected worsening of market conditions (€ -16 mn; 2018: € +9 mn):

  – € 31 mn addition (gross) considering a more likely economic downturn affecting performing exposure and extension of underlying historical data period

  – € 15 mn release (gross) due to maturity effects and LGD improvements, especially on Southern European bonds

  (b) Individual development in sub-segments (Stage 3):

  – € 14 mn higher addition compared to previous year (2019: € 33 mn; 2018: € 19 mn), resulting from valuation adjustments for UK shopping centres

  – No payment defaults

- **Coverage ratio**:

  – Stage 3 coverage ratio[1] down to 11% (2018: 18%) due to new additions with lower coverage (incl. a 100% ECA covered public sector loan of € 97 mn EaD without provision)

  – REF coverage ratio at approx. 100% with additional collateral taken into account

1 Coverage ratio = credit loss allowances on financial assets in stage 3 / gross book values in stage 3 (loans and securities) 2 Incl. recoveries from written-off financial assets and provision in lending business

Financials

Operating costs increased y-o-y as expected, mainly driven by investments and regulatory projects

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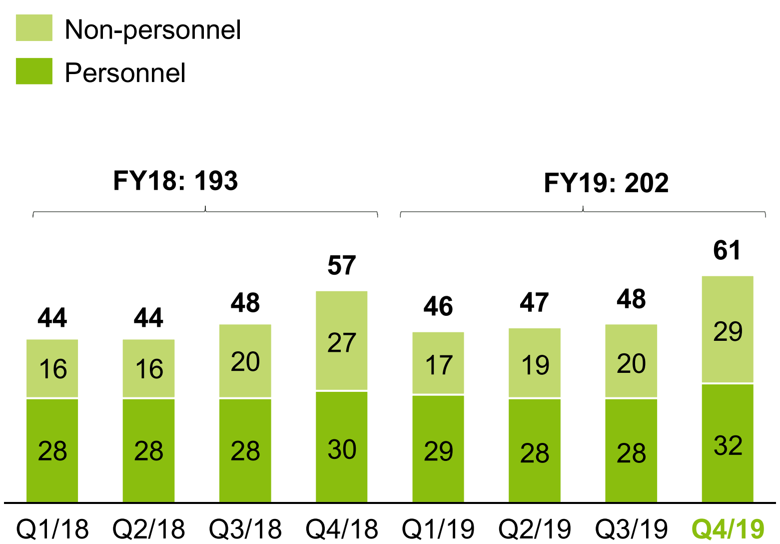
General & administrative expenses and depreciations

€ mn

	Q4/18	Q4/19	FY18	FY19
General admin. expenses	-57	-61	-193	-202
Personnel	*-30*	*-32*	*-114*	*-117*
Non-personnel	*-27*	*-29*	*-79*	*-85*
Net income from write-downs and write-ups on non-financial assets	-4	-5	-15	-18
CIR (%)[1]	*50.4*	*48.9*	*44.2*	*43.5*



Key drivers 2019:

- **GAE** slightly up y-o-y (€ 202 mn; 2018: € 193 mn) to a more normalised level – in line with expectations as 2018 benefited from releases
  - Personnel expenses slightly up by 2.6% (2019: € 117mn; 2018: € 114 mn)
  - FTE stable (2019: 752 FTE; 2018: 750 FTE), but higher personnel costs for strategic initiatives and projects
  - Non-personnel expenses increased to € 85 mn (2018: € 79 mn), mainly driven by regulatory projects and IT costs; 2018 benefited from release of provisions for completed projects
  - Similar to last year and in line with expectation, increase in Q4/19 driven by project related costs (esp. regulatory projects)
- **Net income from write-downs and write-ups on non-financial assets** mainly driven by scheduled depreciations; 2019 first-time application of lease contracts to be recognised as right-of-use-assets (IFRS 16)

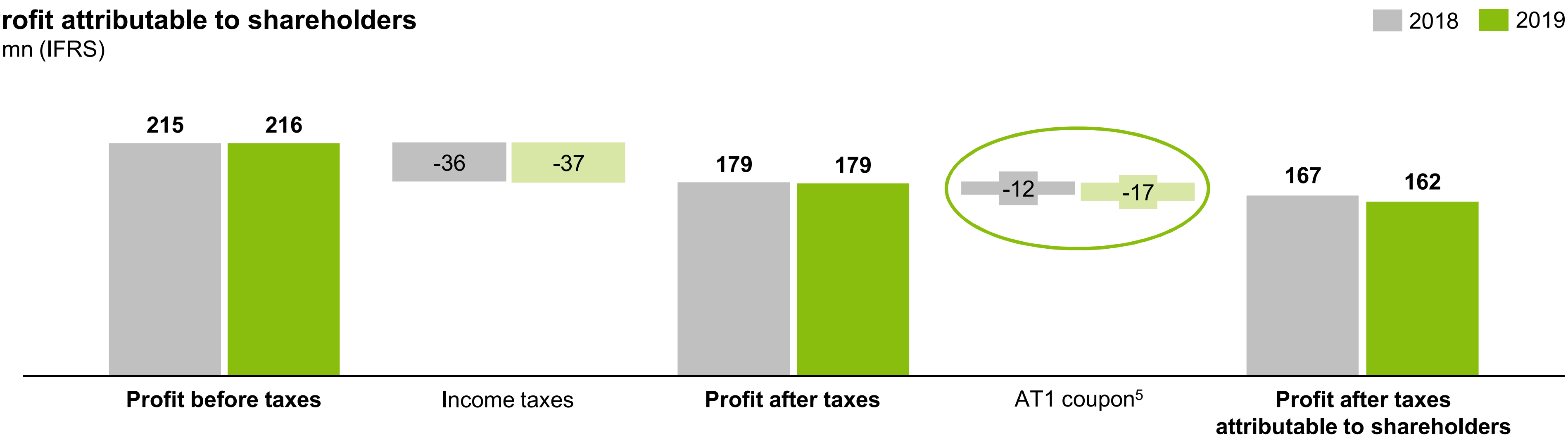
1 CIR = (GAE + net income from write-downs and write-ups on non-financial assets) / operating income

Dividend

Shareholders to participate from continued strong performance – in line with pbb's dividend policy, management intends to propose dividend of € 0.90 per share (payout 75%[1])

Profit attributable to shareholders

€ mn (IFRS)



Dividend proposal for 2019

- Management intends to propose a dividend of € 0.90 per share (in line with dividend policy of 50% regular dividend plus 25% supplementary dividend)
  - PAT attributable to shareholders: € 162 mn
  - Earnings per share[2]: € 1.20
  - Dividend per share[2]: € 0.90
- 2019 dividend proposal underscores pbb's positioning as a dividend/yield share – dividend yield above sector average
  - Payout ratio of 75%[1]
  - Dividend yield 6.2%[3] / 7.9%[4]

Proposed dividend policy for 2020-2022

- Confirmation of dividend policy for next three years 2020-2022
- Payout ratio of 50% regular dividend plus 25% supplementary dividend
- The dividend payment is subject to
  - economic viability, a potentially more cautious expectation on overall macroeconomic and in particular CRE markets developments as well as regulatory demands and needs
  - regular review

1 Based on IFRS group profit after tax attributable to shareholders 2 Number of outstanding shares 134,475,308 3 Based on XETRA year-end closing price 2019 of 14.56€ 4 Based on annual average price 2019 (volume weighted daily XETRA closings) of 11.43€ 5 2018: pro rata

Capital

Capitalisation remains strong – as expected and already communicated RWA increase in Q4 due to LGD parameter recalibration; EBA and Basel IV anticipated

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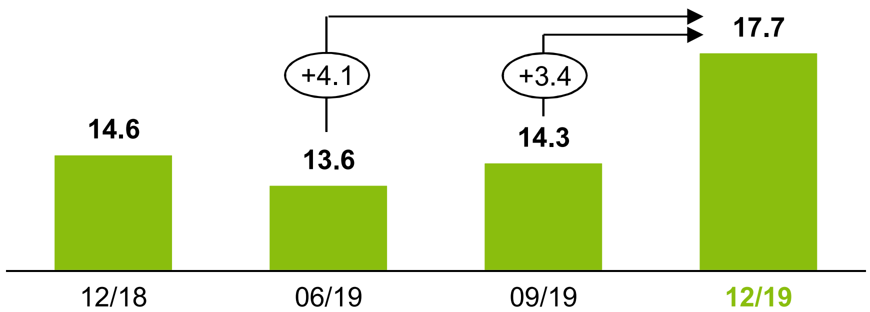
Basel III: RWA

€ bn (IFRS)



Key drivers Q4/19:

- Risk weights geared to expected requirements from EBA and Basel IV
  - Recalibration of LGD parameters as of 31.12.2019 towards expected Basel IV levels
  - Transfer of parts of the portfolio into standard approach (KSA), predominantly affecting public sector assets
- RWA increase in line with expected and communicated range of € 4-5 bn (vs. Q2/19: € +4.1 bn; vs. Q3/19: € +3.4 bn)

Basel III: Equity and capital ratios

(IFRS)

Capital in € bn	12/18[1]	09/19[2]	12/19[3]
CET 1	2.7	2.6	2.7
AT 1	0.3	0.3	0.3
Tier 2	0.6	0.6	0.6
Total Equity	**3.6**	**3.6**	**3.6**

Capital ratios in %	12/18[1]	09/19[2]	12/19[3]
CET 1	18.5	18.3	15.2
Tier 1	20.5	20.4	16.9
Own funds	24.9	24.8	20.4
Leverage ratio	5.3	5.1	5.4

SREP requirements 2020:

- Requirements for CET1 and Own funds unchanged:
  - CET 1 ratio: 9.5% (2019: 9.5%)
  - Own funds ratio: 13.0% (2019: 13.0%)
- Anticipated countercyclical buffer increased from 35bp to 45bp

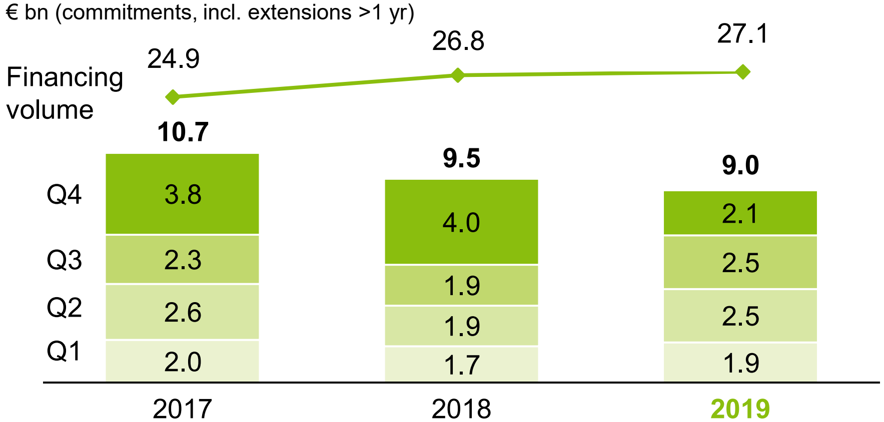
Note: Figures may not add up due to rounding   1 Incl. full-year result, post dividend 2018   2 Excl. Interim result   3 Incl. full-year result, post proposed dividend 2019

New business

REF new business volume of € 9.0 bn in line with guidance – avg. REF gross interest margin stable at ~155 bp y-o-y

REF New business

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



Key drivers 2019:

- New business **volume** stays on solid level while pbb remains highly selective – in line with guidance of € 8.5-9.5 bn
- **REF** – core portfolio with moderate growth strategy
  - Continued conservative approach
    - Avg. LTV 58%[2]
    - Cautious in UK and on Retail
    - Supplemented by USA, Office and Residential
  - Avg. REF gross interest margin stable at ~155 bp (2018: ~155 bp)
- **PIF** – portfolio on hold with low new business volume (2019: € 0.3 bn; 2018: € 1.0 bn)

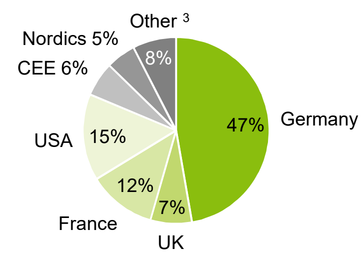
REF new business

	FY18	9M/19	FY19
Total volume (€ bn)	9.5	6.9	9.0
thereof: Extensions >1 year	*2.2*	*1.5*	*1.9*
No. of deals	185	115	155
Avg. maturity (years)[1]	~4.7	~4.6	~4.6
Avg. LTV (%)[2]	59	59	58
Avg. gross interest margin (bp)	~155	>150	~155

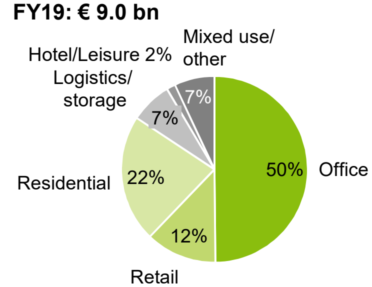
Regions | **Property types**

New business (Commitments, incl. extensions > 1year)

FY19: € 9.0 bn

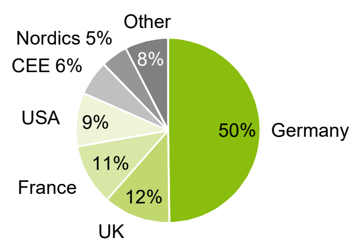


FY19: € 9.0 bn

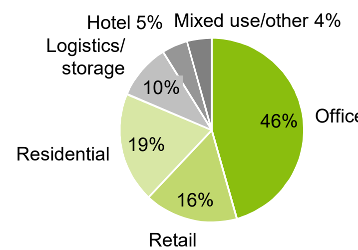


Portfolio (EaD, Basel III)

31/12/19: € 29.8 bn



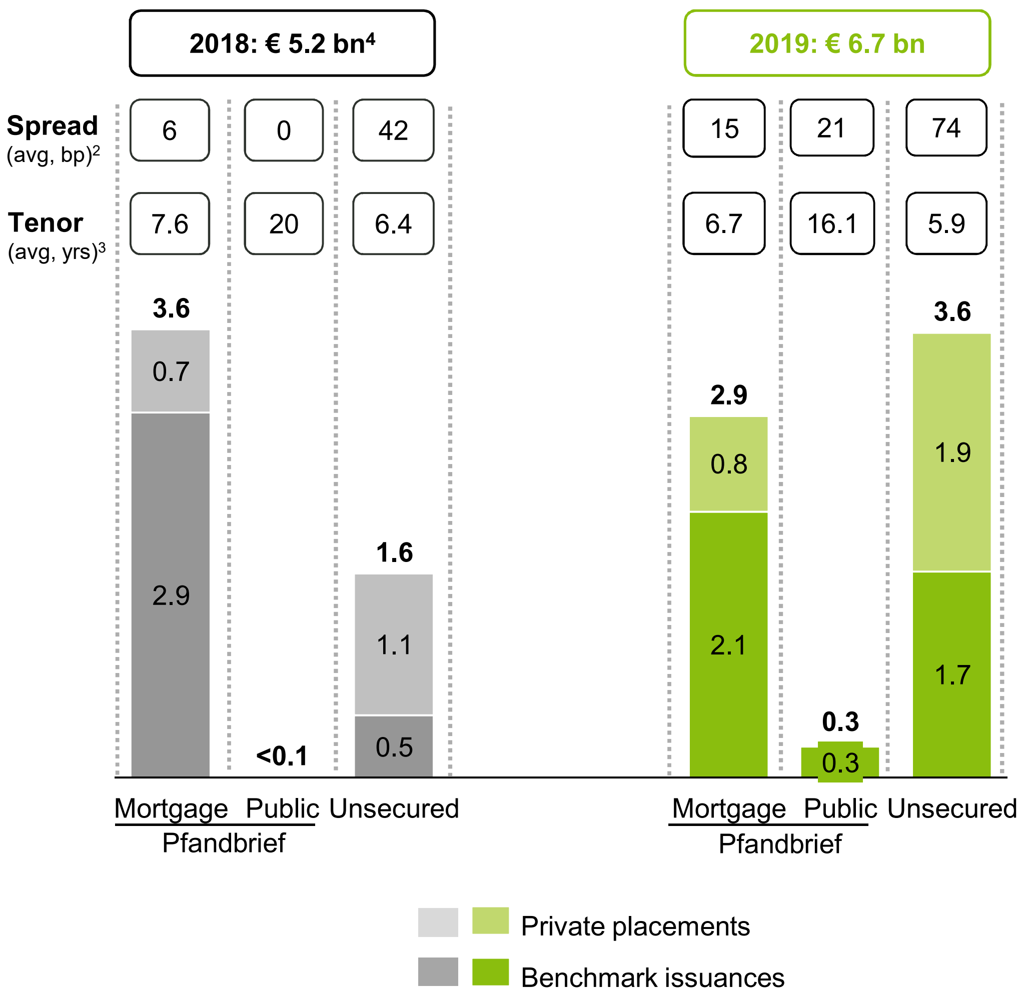
31/12/19: € 29.8 bn



Note: Figures may not add up due to rounding 1 Legal maturities 2 New commitments; avg. LTV (extensions): 2019: 55%; 2018: 57% 3 Austria, Italy, Luxembourg, Netherlands, Switzerland

Funding
Successful funding activities in line with plan

New long-term funding[1]
€ bn



Funding 2019

- Strong funding activities (2019: € 6.7 bn; 2018: 5.2 bn) with focus on foreign currencies
  - Pfandbrief volume dominated by benchmark issuances
    - € 1.6 bn (two benchmarks plus taps) and $ 650 mn (one benchmark plus tap) Mortgage Pfandbriefe
    - Largest Pfandbrief issuer in SEK with SEK 3.7 bn
  - Senior Unsecured issuance with strong focus on senior preferred bonds
    - € 1.3 bn (two benchmarks plus tap) as well as CHF 125 mn and GBP 250 mn (both benchmarks) plus strong private placement activities with € 1.6 bn and SEK 2.5 bn
- Avg. funding spreads higher y-o-y, reflecting higher funding volumes in H1 at elevated spread levels – however, new funding spreads below maturities
- pbb direkt – total volume reduced to € 2.8 bn (12/18: € 3.0 bn) to further optimise funding costs; Average maturity[5] increased to 4.2 years (12/18: 4.0 yrs)
- 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 vs. 3M Euribor 3 Initial weighted average maturity 4 Excl. AT1 issuance 5 Initial weighted average maturity of term deposits

Strategic Initiatives

Innovation & Digitalisation to strengthen competitiveness – Sustainable Finance to take responsibility

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Digitalisation

Fields of Action

- **Customer Interfaces** – development and implementation of CRM portal
- **Efficiency** – optimising of internal processes, inter alia, by using AI
- **Products & Services** – new sources of income

Workflows

- **pbb next** – bundling of strategic initiatives; pbb looks at how digitalisation can help to further develop the business model of pbb
- **pbb core** – pbb's existing core processes to be digitised with the focus on improving the customer interface and efficiency
- **pbb fit for digital** – measures are being implemented to establish pbb as an organisation ready to face the challenges of digitization
- **CAPVERIANT** as a "corporate startup“ – first concrete implementation of a digital business model in pbb

➢ **Creating a digital organisation that takes advantage of agile methods**

Sustainable Finance

Lending Business

- Project to integrate ESG factors into the credit process / lending initiated in 2019
- Focus 2020 on identifying suitable criteria for “green buildings“

Green Bond

- Integration of ESG factors also allows issuance of Green Bonds
- Green Bond framework in preparation

Carbon Emission

- Building up a data base with regards to ESG criteria, including carbon emission data

ESG Risks

- ESG risks structurally included in overall Risk Management landscape
- Expanding scope of monitoring and reporting

➢ **Gradually integrating sustainability criteria into the credit process to identify and originate green assets for better risk management steering and facilitating the issuance of green bonds**

Outlook 2020
Cautious outlook for 2020 given market and competitive conditions

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Strategic Priorities

Focus on stable operative results including increased risk provisioning

- Stable development of NII, GAE and risk provisions
- Lower income from realisations
- PBT guidance € 180-200 mn

Further fortifying pbb's capital base

- Risk weights geared to expected requirements from EBA and Basel IV
- Capitalisation remains strong
- Anticipation of future risk standards ahead of the curve
- Higher resilience against market driven fluctuation of risk parameters

Focus on profitable but risk conservative new business

- CRE market environment remains highly competitive and challenging
- pbb remains selective in new business resulting in REF new business guidance of € 8.0-9.0 bn
- Expectation for avg. gross margin slightly lower

Innovation / Digitalisation

- Internal process optimisation
- Customer loyalty
- Development of new sources of income

Outlook 2020

Operating trends	2018	2019	Guidance 2020
Real Estate Finance (REF)			
New business volume[1] (€ bn)	9.5	9.0	€ 8.0-9.0 bn
Avg. gross margin (bp)	~155	~155	Slightly lower
Financing volume (€ bn)	26.8	27.1	Moderate increase (strategic portfolio)
Public Investment Finance (PIF)			
Avg. gross margin (bp)	>60	>80	Stable (strategic portfolio in “hold” mode)
Financing volume (€ bn)	6.4	6.3	
Value Portfolio (VP)			
Financing volume (€ bn)	13.1	12.1	< € 11.5bn (non-strategic portfolio in run-down mode)
Income statement (IFRS, EUR mn)	**2018**	**2019**	**Guidance 2020**
Net interest and commission income	456	464	Largely stable
Loan-loss provisions	-14	-49	Stable; 15-20bp EL on REF financing volume
General administrative expenses	-193	-202	Stable
Pre-tax profit	**215**	**216**	€ 180-200 mn
Key ratios (%)	**2018**	**2019**	**Guidance 2020**
RoE before taxes	7.1	6.9	5.5-6.5%
RoE after taxes	5.9	5.7	4.0-5.0%
CIR	44.2	43.5	Slightly higher
CET1 ratio[2]	18.5	15.2	Significantly above SREP requirement of 9.5% + countercyclical buffer of 0.45% (2019[3]: 9.5% + 0.35%)

Note: Figures may not add up due to rounding 1 Incl. extensions > 1 year 2 Incl. full-year result, post (proposed) dividend

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