Annual General Meeting 2022

Management Board Speech

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Check against delivery.

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1. INTRODUCTION

Good morning dear shareholders,
Ladies and Gentlemen,

I would like to welcome you to the Annual General Meeting of Deutsche Pfandbriefbank AG. Once again, our Shareholders' Meeting is being held as a virtual event this year. Persistent uncertainty surrounding development of the COVID-19 pandemic at the time of planning and preparing the event, once again suggested this format.

As in the past, **interaction** with you, our shareholders, is important to us.

- This is why we are making the **speeches** of the Chairman of the Supervisory Board, Dr Günther Bräunig, and of myself, available before the AGM. This will give you the opportunity to consider any questions you may wish to put to us.

  In addition, we've provided and published answers to the **questions** that you already submitted in advance.

- In addition, our shareholders can make use of the opportunity to send us written statements for the general debate. This helps us to further intensify the interaction with you, during the course of our virtual Annual General Meeting.

Ladies and gentlemen,

We are reporting today on the 2021 financial year. Despite being shaped by the impact and consequences of the COVID-19 pandemic, the year showed clear signs of economic recovery as the months went by (CHART #1). Right now, while we had all been hoping for further steps back towards normality in 2022, we are instead being appalled by the **war in Ukraine**. The resulting human suffering puts the commercial performance of businesses into perspective, and thus also overshadows the good results pbb has posted. The situation in Ukraine is very much on our minds today as we report on the 2021 financial year and our plans for the future; we are keenly aware that every outlook must be subject to the ongoing – and most likely worsening – geopolitical crisis.

pbb was extremely successful in 2021:

- We increased our **pre-tax profit to €242 million** (IFRS, Group). The previous year's figure was therefore exceeded by 60% and we landed clearly above our forecast, which we had already raised during the course of the year. This was associated with a marked increase in **new real estate finance business volumes to €9.0 billion**, which is around 20% more than the previous year. Needless to say, pbb adhered to its conservative risk profile across all exposures.

- And you, our shareholders, will of course benefit from this success: the Management and Supervisory Boards are proposing a **dividend of €1.18 per share**.

- We have not only achieved a good result in 2021 but have also **consistently developed** pbb; this relates to the Bank's orientation towards sustainable finance, among other things. We have been successfully issuing green bonds since the beginning of 2021 and extending green loans since the autumn. We have also continued to pursue digitalisation.

We have once again set our sights high for **2022 and beyond**.

- We want to **continue to grow** – albeit cautiously and in a well-balanced manner. To do this, we will expand our senior lending-focused services to include products in conservatively positioned non-senior lending. We also want to further expand our US business and originate more new business in low-leverage lending as a third area of focus. All of this is complemented by a strong focus on green loans.

  We're able to do this, in spite of a more difficult situation caused by the Ukraine war, because we maintain a conservative approach to risk overall, because we meet the needs of the market precisely with our established focus on core assets, and because we maintain the Bank's renowned risk-conservative profile with the measures mentioned above.

- **Digitalisation** continues to play an important role here and represents a key investment focus – for improved efficiency, better customer connectivity and increased future viability, through cloud computing, for example.

2. FINANCIAL YEAR 2021

Dear shareholders, this brings me to the detailed report on the past financial year. I will divide this part of my speech into three parts: the first will deal with new business and funding, the second part will look at our financial position – in which I will also be explaining the dividend proposal – and thirdly, we shall be taking a close look at the key regulatory capital ratios.

2.1 New business and funding

2.1.1 New business

First of all, let's talk about new business. **Demand on the real estate investment market** recovered further in 2021, although significant differences between the various property types persisted; since the outbreak of the pandemic, demand has strongly focused on first-class office properties with long-term, secure leases. Investors also focused on logistics properties, residential properties, and retail properties offering local amenities. For types such as shopping centres and hotels, demand was very subdued. As a result, returns for the respective types of property were adjusted, and were in fact significantly lower than they were in the period following the financial crisis. Less surprisingly, new business originated by financing banks and non-banks rebounded this year as well. This was evident, in particular for locations, segments and product types for which there is good demand.

With its **fundamentally conservative approach to risk, it is clear that pbb is well positioned** in this environment.

- pbb generated **new commercial real estate finance business** of €9.0 billion, up from €7.3 billion in 2020 (each including extensions beyond one year; CHART #2). At around 170 basis points, the average gross margin remained largely stable during 2021, albeit slightly below the level of the previous year (2020: approximately 180 bps).

  The majority of new business (49%) was generated in pbb's **German home market**. With a share of 15%, US business was again the second most important single market for pbb; France meanwhile took third place with 13%.

  With regard to different property types, the proportion of **office properties** increased again, to 59%, followed by logistics properties with 16% and residential real estate with 13%. In 2021 we again did not offer new financing transactions for hotels and shopping centres.

- We have been offering our clients **green loans** since October 2021, whereby we are targeting traditional investment and development loans but also want to fund investments in the sustainability of existing properties. Client demand for such loans is high.

2.1.2 Funding

During the financial year under review, pbb issued long-term funding instruments amounting to €5.1 billion, thus clearly exceeding the previous year's volume (2020: €3.6 billion; CHART #3). Pfandbriefe accounted for around 60% of the volume. Virtually all of our unsecured funding instruments were issued in the form of senior preferred bonds.

Funding costs fell significantly for unsecured issues, while for mortgage Pfandbriefe this decrease was only slight.

Issues were denominated in **Euro, as well as in foreign currencies:** US dollar, British pound and Swedish krona, matching the lending business. Foreign currency issues are an efficient way of minimising currency risks between assets and liabilities.

We also issued **green bonds** for the first time in 2021, achieving a volume of €1 billion with two issues. To date, we have issued green bonds exclusively as senior preferred bonds, thereby optimising the refinancing costs compared to green Pfandbriefe. While this doesn't rule out issuing green Pfandbriefe, we currently have no plans to do so.

On 24 June 2021, pbb increased its total volume of liabilities under the **ECB's TLTRO III programme** by €0.9 billion to a nominal €8.4 billion, and in this context pbb issued further Pfandbriefe totalling €0.7 billion to be pledged as collateral with the ECB.

2.2 Financial performance

Following on from my comments concerning pbb's operating business, I'd now like to turn to the Bank's financial performance. As always, all figures are consolidated results for pbb Group, and the financial statements have been prepared in accordance with IFRS. You can find more detailed information in our annual report.

2.2.1 Income from the lending business

At €502 million, the aggregate of **net interest income and net fee and commission income** exceeded the previous year's figure of €482 million, representing a consistent increase in income since 2017 (CHART #4).

- **Net interest income** of €494 million (2020: €476 million) was helped by the interest rate benefits from participation in the TLTRO III programme. Without this effect, net interest income would have been unchanged from the previous year.

  We also continued to profit from stronger income from floors in client business, a higher average portfolio of disbursed (and hence interest-bearing) real estate financings, and further reductions in funding costs.

- As in previous years, positive effects clearly exceeded the still-**negative impacts on income**, which include the run-off of the Value Portfolio in line with our strategy, and the continued interest rate-related decline in income from investing equity.

Prepayment fees increased as well. Liquidity in the market was very high in 2021 and investors were searching for core real estate assets in particular, which was driving up the value of such properties. This appreciation in value made it attractive for our clients to dispose of these properties, even if they had to pay us early termination fees. As a result, early termination fees produced higher **net income from realisations** of €81 million (2020: €26 million).

2.2.2 Net income from risk provisioning

Expenses for risk provisioning decreased significantly to €81 million in 2021, having reached €126 million in 2020 (CHART #5). This was despite management overlays of €-54 million, with which the Management Board offset the reversal of model-based loss allowance at its own discretion. We did not use management overlays in the previous year 2020.

Aggregate loss allowance now stands at €358 million compared with €261 million at the end of 2020 and €135 million at the end of 2019. In other words, the Bank has applied more than €220 million in additional loss allowance over the last two years, half of them as stage 1 and stage 2 portfolio-based loss allowance. Taking our commercial real estate finance portfolio as a basis, this yields a relatively high provisioning ratio of 119 basis points.

2.2.3 Administrative expenses

General and administrative expenses of €219 million were slightly above the previous year's figure of €204 million (CHART #6). This increase was largely due to higher personnel expenses of €132 million; however, this item includes one-off provisions of a restructuring nature (in accordance with IAS 19) totalling €11 million.

Thanks to the good result, the **cost/income ratio** declined further in 2021 to a very healthy level of 40%, after 42% in 2020. We therefore remain well below the market average.

2.2.4 Results and dividend proposal

All in all, we are posting pre-tax profits of €242 million which – as I stated earlier – exceeds the previous year by 60% (CHART #7).

Despite higher profits, **income taxes** fell to €-14 million after €-30 million in the previous year. While current tax expenses rose, this was offset by income from taxes for previous years and deferred tax income.

After taxes, and taking into account the €17 million coupon for Additional Tier 1 (AT1) capital issued by pbb, **€212 million or €1.58 per share is attributable to ordinary shareholders**.

We intend to distribute **50% of this to you as a dividend and 25% as a special dividend**. This amounts to a total of €159 million or €1.18 per no-par value share entitled to dividends, which is split into €0.79 per share as a dividend and €0.39 per share as a special dividend.

Also, in future, when **setting** the ordinary and special dividends, pbb will take into account macroeconomic and sector-specific risks as well as the regulatory requirements and the communicated target capitalisation levels, including cautious buffers. It will also take future investments into consideration.

2.3 Key regulatory capital ratios

pbb continues to have a solid capital base, and capital ratios improved in 2021 (CHART '#8). This is because pbb's **risk-weighted assets** (RWAs), calibrated to meet expected Basel IV levels, declined by the end of the year to €16.8 billion (Sep 2021: €18.1 billion, Dec 2020: €17.7 billion). Methodological changes and maturities had an impact here, which were only partially offset by the increase in the real estate financing portfolio. **Own funds** also rose slightly to €3.8 billion (Sep 2021: €3.6 billion; Dec 2020: €3.8 billion) as the retained portions of the 2020 and 2021 annual results were taken into consideration.

This concludes my comments on the 2021 financial year. The second part of my speech focuses on pbb's strategic initiatives and outlook.

3. STRATEGIC INITIATIVES AND OUTLOOK

Dear shareholders,

As I already explained in my introduction, we have a lot planned for 2022 and subsequent years – however, we can, at best, only give a very cautious outlook. The geopolitical situation, the war in Ukraine and related sanctions, as well as the ongoing consequences of the pandemic, especially in supply chains, will have a serious impact on global economic development in the coming months – an impact that is hard to predict at the present time. In spite of these challenges we would like to give you at least an outline of how we see the business developing in the future.

We are convinced that pbb, with its conscious and consistent focus, is well positioned to face this crisis as well. Prime and core real estate assets continue to be considered stable and sought-after investment opportunities. In a crisis, what happens is a 'flight to quality'. This fact should support our strategy.

In addition to our conservative risk positioning, **we have also consistently developed other aspects of pbb since the IPO**. We have implemented a number of efficient optimisation processes in our day-to-day operations over the past few years. In addition, starting in 2016, we launched our US business, which is now – I just mentioned the figures – pbb's second-largest market. The second key expansion of our business has been the launch of green loans.

Over the next few years, we want to **sustainably strengthen pbb's earnings base** (CHART #9). Since the IPO, our earnings have been in the region of €200 million before taxes. We exceeded this level in 2021, thanks to various favourable developments. Our strategic measures should help us achieve a higher level in the long term.

Digitalisation will continue to play an important role here. Over the last few years we have made significant investments in our core banking system, restructuring it entirely. We then consolidated our data pool. Now we are ready to take the next step, in order to maintain our lead.

3.1 War in Ukraine

Business ambitions and plans are one thing; however, the war in Ukraine is something entirely different. Concerns for the people affected outweigh worries about global economic developments, pushing the impact of the war on pbb's business firmly into the background.

We are appalled by the war, and condemn Russia's actions. We are particularly touched by the **fate of people** drawn into this conflict. At this point, I would like to express profound gratitude that the employees of pbb have donated €100,000 towards helping the people affected by the war. pbb has matched this amount and added another €100,000 on top. This amount has then been increased by a further 10% to €330,000 thanks to the personal contributions from the members of the Management Board.

We have not seen a direct **impact of the war** on pbb so far.

- From today's point of view, we believe the **implications for our loan book and our operative business** to be marginal and manageable.

  We have no direct exposure to Russia or Ukraine, since these are not target markets for pbb. Our focus in the Central and Eastern Europe region is on Poland and the Czech Republic. Likewise, indirect risks are also very limited. Finally, we don’t have offices in either Russia or Ukraine, neither do we have local colleagues, nor currency exposure.

  We are, however, already seeing an impact on construction activity, which is relevant to our development financing. For instance, there are many Ukrainians active in the construction sector. Ukraine and Russia also supply building materials. In this respect, the successful completion of new buildings is becoming an increasing concern, and the pressure on construction costs is rising. We are taking a prudent approach, implementing in some instances a more cautious calibration of our risk requirements.

- The **funding markets** are showing widening spreads, but in pbb's case these are moderate. Also, crisis-proof products such as Pfandbriefe tend to be held in higher esteem.

- Yet the **macroeconomic perspective** shows a more mixed picture.

  We have to be prepared for weaker economic growth, at least in Europe. Inflation is also set to rise further, and the effects on monetary policy and interest rates are beginning to show.

Despite the weaker macroeconomic parameters and general uncertainty, we are not yet seeing strong negative effects on the **real estate investment markets** in which pbb is active, especially not in the area of prime or core real estate financed by pbb. Rather, transaction volumes and prices on these markets have proven resilient. Investment pressure remains unchanged, and stable assets such as prime and core real estate are particularly sought after in times of crisis, due to the flight to quality: with our focus on core properties, with stable cash flows, renowned tenants and low re-letting risks, we are catering precisely to this market. Also, pbb lends to professional, crisis-experienced investors and ensures that loan agreements have low loan-to-value ratios and solid covenant structures.

3.2 Growth and digitalisation

3.2.1 Organic growth

We want to continue to **grow organically in our core business** (CHART #10).

- Firstly, we are further expanding our product range and offering **conservative non-senior lending products** for the first time.

  This includes **loan-on-loan financings**. In this context, rather than extending loans directly to real estate investors, pbb acts as a loan-on-loan lender and provides a loan to a third party, the loan-on-loan borrower.

  Furthermore, we also plan to offer **mezzanine financing** in the US business within a clearly-defined framework; this means with defined volumes and on the conservative side of the mezzanine market, that is, with comparatively low loan-to-value ratios.

- In addition to these specific areas, we want to **strengthen and expand our business in the US across the board.** We are confident of being able to generate more volume, given the absolute size of the market and the better penetration we have achieved since entering the market. However, we right now don't want to extend our coverage to additional regional markets beyond the seven gateway cities we are currently focused on.

- Last but not least, we want to generate more new **low-leverage lending** business. Here the margins are lower, and so is the risk and capital commitment. We are also in a position to implement a more standardised and therefore more cost-effective credit process.

- In this way, we aim to increase the volume of our **commercial real estate finance portfolio to around €32 billion by 2024/2025**. This figure includes green loans, which I will now elaborate on.

3.2.2 Green finance

As one of the leading providers of commercial real estate finance, pbb is an important partner for the real estate industry. As a bank, **our ecological footprint** is naturally relatively small: we endeavour to avoid harming the environment preventing CO_2 emissions wherever possible, whilst offsetting - at least in part - emissions where they are unavoidable.

However, the real estate industry, which we fund, is currently responsible for around 40% of global CO_2 emissions through the construction and operation of buildings. By adopting a comprehensive approach for sustainable financing, we can therefore make a difference: our objective is to steer funds into climate-friendly investments – for pbb this means in **more environmentally friendly buildings.** We support the EU Commission's European Green Deal, a growth initiative that aims to make Europe the first climate-neutral continent by 2050.

Supporting this shift in the real estate industry by providing funding for the transformation is an **obligation to society** and a **business opportunity** at the same time. We are extending our business potential and protecting our balance sheet against assets that are likely to lose value in the long term due to poor sustainability.

pbb extends **green loans** for standard investment loans and development financings for green real estate (CHART #11). Given the sustainability of green real estate projects, which are expected to have higher value stability and therefore proportionally lower risks, the Bank will also extend loans with higher loan-to-value ratios. Moreover, pbb plans to finance clients' investments in the sustainability of real estate held in pbb's loan portfolio. At the end of March of this year, we had extended more than €800 million in green loans.

pbb plans to continuously increase the share of green real estate in its loan portfolio – to around **30%** by 2024/2025.

Green bonds, which we use to fund green assets, enable us to complete the circle of our sustainable financial activities: we offer institutional investors a sustainable investment opportunity and are tapping into new investor groups. We currently have €1.95 billion outstanding in green bonds and view them as an integral element of our funding strategy.

Green finance – issuance of green loans and green bonds – is a component of **pbb's comprehensive ESG strategy**. Since the 2021 financial year, our internal ESG programme has bundled all ESG-related topics that are of relevance to pbb.

- We base our business activities on environmental and social criteria, adhere to the standards of good corporate governance and place ESG requirements at the centre of what we do

- We adjust our risk management and the management of our risk standards, giving adequate consideration to ESG risks within the meaning of the regulatory requirements.

- At the same time, we want to collect more data about pbb's ecological footprint, reduce our environmental impact and extend our reporting to take sustainability and ESG into account.

3.2.3 Digitalisation

We have started our digital journey a while ago and have made good **progress** here (CHART #12):

- We launched our **Client Portal** in the first quarter of 2021, which digitalises the interface between our clients and pbb. With the portal, we can simplify document management and increase transparency in the credit process for our clients.

  We are consistently developing this portal, adding markets, products and functionality.

- As a logical next step, we are now working on the **digitalisation of our client and credit processes.** We launched this project in 2021, and it is scheduled to run for at least three years. We're aiming for a modular system with a consistent workflow that is efficient and improves transparency, not least for our clients.

  We see potential for many digital solutions, from automatic data extraction to the use of artificial intelligence for analysis support and decision-making, especially for routine tasks that are mostly conducted manually. We are already implementing solutions, applying best agile practice.

  We are also joining forces with FinTech and PropTech companies; property valuations, for example, offer opportunities in this context.

We are confident of becoming **quicker and more efficient** through more digitalisation, and of being able to demonstrate greater business performance.

As a matter of course, we are also very closely monitoring the topic of **credit platforms for commercial real estate finance**.

- To date, we have not seen any shift in the business with professional real estate investors to platforms. This is probably due to structural reasons: standardisation is low and the number of transactions comparatively low, too – both of these contradict the economics of a platform.

- As one of the leading providers of commercial real estate finance, we want to support digital developments and not leave such opportunities to others. We are therefore consistently forging ahead with digitalisation and have already put key building blocks in place for a platform option, with our Client Portal, the digital credit process and our CAPVERIANT platform for municipal financing.

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3.3 Outlook

Dear shareholders, as usual, I would like to conclude my comments by giving an outlook on the current year.

3.3.1 Guidance for 2022

- In the current financial year 2022, we plan to increase new business origination in commercial real estate finance to between €9.5 billion and €10.5 billion (including extensions beyond one year; CHART #13).

  We will continue to forge ahead in the prime and core segment. As we anticipate strong competition in this segment, we continue to expect pressure on gross margins in new business, which will probably fall slightly as a result. We'll try to counter this effect through selective new business as much as possible and we won't compromise on quality.

  The average financing volume of the real estate financing portfolio is also expected to rise slightly.

- We anticipate **pre-tax profit** in a range between €200 million and €220 million, thus aiming for a result in line with the levels seen in recent years, despite incurring expenses for expanding the business and weaker tailwinds from favourable effects.

- However, this guidance does not yet reflect the potentially **negative impact of the war in Ukraine and the sanctions against Russia.**

Results are expected to be higher again in the **coming years,** thanks to the series of initiatives that we are implementing and that I presented earlier.

3.3.2 Results for the first quarter of 2022

With **strong results for the first quarter,** we're off to a good start into the 2022 financial year. Our consolidated pre-tax profit reached €42 million following €52 million in the same period last year (based on unaudited figures in accordance with IFRS; CHART #14).

- We slightly increased our **operating income,** with the aggregate of net interest income and net fee and commission income remaining stable. Net income from realisations came in lower due to a decrease in prepayment fees.

  This decline was more than compensated for by a rise in net income from fair value measurement and in other operating income.

- As our operating income increased, so did risk provisioning, due to lower growth assumptions in the risk models resulting from the war in Ukraine. In addition, the bank levy and similar dues increased because the SRF fund's target volume increased once again – as determined by the supervisory authorities. General and administrative expenses also picked up, amongst other things due to IT and strategic project costs.

The bottom line is: with the exception of the model-based loss allowance, pbb's results so far have been **unaffected by the tense market situation** caused by the war in Ukraine.

4. CONCLUSION

Dear shareholders,

If I may summarise (CHART #15):

- Having generated **pre-tax profit of €242 million**, 2021 was an extremely successful year for pbb. We clearly exceeded the earnings level of around €200 million achieved in recent years, thanks to various favourable developments, and despite having further strengthened loss allowance in the form of the management overlay.

  Our shareholders shall benefit from this success with a **dividend of €1.18 per share**.

- We will employ a series of measures to **sustainably strengthen our earnings base in the coming years**.

  We plan to **grow organically** in the established markets and anticipate growing demand for green financings. Product innovations and the expansion of the US business promise additional growth in the core business.

- We aim to achieve a solid pre-tax profit of between €200 million and €220 million in 2022, in line with previous years. While we **see 2022 as a year to invest,** we also expect it to be shaped by a more challenging interest rate environment marked by macroeconomic uncertainty due to the geopolitical situation.

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Thank you very much for your attention.