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Annual General Meeting

Management Board speech

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Andreas Arndt
CEO

Deutsche Pfandbriefbank AG

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Deutsche Pfandbriefbank AG
Communications
Parkring 28
85748 Garching, Germany

1 INTRODUCTION

Dear shareholders, good morning.
Ladies and Gentlemen,

It is my pleasure to welcome you to the Annual General Meeting of Deutsche Pfandbriefbank AG.

This year's **Annual General Meeting is special in many ways**:

- Firstly:

  Against the background of the persistent COVID-19 pandemic, having carefully considered all relevant aspects, we have decided to hold a **virtual AGM** without personal attendance of our shareholders. This allows us to protect the health of all participants, whilst still being able to vote on all resolutions on the planned date. However, we look forward to seeing you again in person at a later date.

- Secondly:

  We can report on a **good financial year in 2019**, including a stable performance and conservative risk profile, both of which are sustainable prerequisites for weathering any crisis.

  Thanks to this stability, we are well-positioned to face the challenges related to the **COVID-19 pandemic**; a pandemic impacting the entire global economy, strongly burdening the real estate markets, and also taking its toll on pbb in the 2020 financial year.

  Despite these special challenges, we are confident of also being able to generate a **strong operative result in 2020**, i.e. on the level of net interest income and general and administrative expenses. Our position is exactly as it should be during such a crisis: we have a risk-conservative focus, we are well-capitalised and have ample liquidity, with a good overview of the risks in our business, and the ability and readiness to take advantage of chances and opportunities – even in critical times.

- Thirdly:

  Our cautious and risk-conservative approach also requires us to propose to the AGM the **retention of the amount originally intended for the distribution of a dividend** for the 2019 financial year. This does not alter the fact that pbb is a dividend stock and that we endeavour to pay an attractive dividend to you, our shareholders. Nevertheless, the current situation calls for us to allocate our profit to other retained earnings and to strengthen the Bank's capital, thus following the European Central Bank's recommendation.

We are convinced that our solidity, and our comparable strength in the real estate finance market, provide us with opportunities, especially in this challenging time, which we will consistently endevour to use to our advantage. Defending our solid position, maintaining our risk-conservative approach, and proactively taking advantage of opportunities – those are our principles for the time ahead.

So much for the introduction. I will now turn to **three topics**:

- Last year's good, continuously stable **development of our business**, as a basis and indicator for a return to stable operative results in this year;

- to our **strategic positioning and the strategic initiatives** in the light of extraordinary challenges; and finally

- to the **pandemic**, and our **outlook**.

2 FINANCIAL YEAR 2019

Let me start with the 2019 financial year, and specifically, with the operative business and the financial performance. I will then turn to the proposal for the appropriation of profits and to the regulatory indicators.

2.1 Operative business – lending business and funding

2.1.1 Lending business: markets, new business, and portfolio

Overall, the real estate markets remained structurally sound in 2019. Despite increased macroeconomic and political uncertainty and elevated valuation risks, the **real estate cycle continued its positive trajectory**. Demand in the investment and rental markets was high, so prices and rents remained stable for the most part. Renewed interest rate cuts by the ECB increased the relative attractiveness of the real estate asset class in particular, putting further pressure on yields.

Despite a generally favourable market situation, **individual sub-markets continued to show a weaker development**. This applies, for instance, to retail properties, especially in the UK, which are particularly affected by structural changes in the sector. In addition, real estate markets in the United Kingdom continued to be burdened by persistent uncertainty arising in conjunction with Brexit.

pbb continued to position itself cautiously in this environment, which remained highly competitive. For the second year in a row, we have deliberately scaled back on **new business**, focusing on consistently imposing our risk standards, and of course on higher-margin business.

- This approach has enabled us to achieve **a new business volume of €9.3 billion.**

- Of this amount, **€9 billion was attributable to Commercial Real Estate Finance, by far the biggest of our business segments** (including extensions of more than one year). We are therefore exactly in the middle of the range we had set ourselves.

  Gross new business margin have risen steadily since the first quarter of 2019. While the structure of new business in the first quarter led to an average gross new business margin of 135 basis points, that margin rose to an average of around 155 basis points over the year as a whole, and thus exactly to the same level as seen in 2018.

  Germany remained the most important individual regional market, accounting for 47% of new business. Among the types of property financed, **office buildings** accounted for the lion's share, with 50%. For the year as a whole, the **US** accounted for 15% of new business and currently represents the second largest individual market for pbb (2018: 13%).

- At €33.4 billion, the **financing volume in the strategic portfolio** at year-end 2019 was slightly higher than at the end of the previous year (31 December 2018: €33.2 billion).

2.1.2 Funding and capital market

In 2019, pbb raised a new **long-term funding volume** of €6.7 billion, an impressive confirmation of the Bank's placement power on the capital market (CHART 3).

- The increase was attributable to significantly higher volumes of **unsecured issues**, which rose to €3.6 billion (2018: €1.6 billion).

  pbb continued to issue unsecured bonds, almost exclusively in the form of **senior preferred issues**. Due to their ranking in the liability cascade, they have lower risk premiums than non-preferred bonds and thus have more attractive funding costs.

  As in previous years, pbb has systematically and successfully expanded its share of **foreign-currency issues** in order to continue funding its non-euro lending business with matching currencies wherever possible, and to reduce currency hedging costs via respective derivatives.

- At €3.2 billion, **Pfandbrief issues** were down slightly on the previous year (2018: €3.6 billion).

Issuing spreads (over 3-month Euribor) were higher in 2019 compared with the previous year; the current year's **funding costs**, however, have remained below the levels of maturing funding instruments.

On the one hand, the Bank's comprehensive and successful funding activities obviously reflect pbb's new business and maturity structures during 2019; on the other hand, however, they include a significant and forward-looking liquidity buffer for 2020 – a strategy which is currently paying off.

2.2 Financial performance

pbb generated **very good results in the 2019 financial year** – as usual, the figures I will present refer to consolidated figures in accordance with IFRS.

- At €216 million, **pre-tax profit** was slightly up on the previous year's figure – and well above our original guidance of €170 million to €190 million.

- We were able to further increase **net interest income** – our most important income item – which, together with net commission income, totalled €464 million.

  Operating income also increased significantly to a total of €506 million. This development was not only due to net interest income, but also to above-average prepayment fees of €39 million.

- Irrespective of the COVID-19 pandemic, we had already accounted for what we saw as an increased probability of a global economic and sector-specific downturn in 2019, by significantly increasing **risk provisioning** to €49 million.

- We have continued to invest in pbb's digitalisation process, in the US market, and in regulatory projects. Increased project expenses were largely offset by savings generated from centralising our back-office activities, and by streamlining and restructuring our Public Investment Finance business. As a result, **general and administrative expenses** rose only slightly, to €202 million, whilst the cost/income ratio fell to a healthy 43.5%.

- **Net income after taxes** amounted to €179 million (unchanged from the previous year), of which **€162 million was attributable to ordinary shareholders** after deducting coupon payments for additional tier 1 (AT1) capital which we had issued in April 2018.

2.3 Dividend

2.3.1 Proposal for the appropriation of profits for the 2019 financial year

Usually, and in line with our dividend policy, net income after taxes in accordance with IFRS attributable to ordinary shareholders would form the basis for the dividend of the previous year: Of that amount – €162 million, or €1.20 per share – we had originally intended to distribute 50%as a regular dividend and 25% as a special dividend.

However, shortly after passing this resolution, the coronavirus crisis and subsequent economic slumps drastically changed our environment. According to all economic experts, the consequences will be significantly worse than those of the last major crisis in 2008/2009. However, a real estimate of the impact, especially as regards potential risk costs, is currently not reliably possible, in spite of all the sophisticated forecasting models we have at hand.

Therefore, the Bank continues to focus on further stabilising its capital basis, following its own principles of prudence and economic common sense – despite excellent capitalisation and a risk-conservative portfolio structure. That doesn't contradict our still-valid position as a dividend stock: with the clear message of strong and enhanced capitalisation, we are sending an unmistakable signal of strength to the capital markets – and above all, ensuring our flexibility to exploit further business opportunities and chances, even in times of crisis. This is exactly what you, our shareholders, can expect from us: we will reef the sails, batten down the hatches, hold a steady course, and keep full speed ahead, since this is the only way we will be able to pay an appropriate dividend in better times. Retaining the dividend for 2019 is our, and your, contribution to resilience during a crisis and to enhanced earnings power.

And there is another aspect: on 27 March 2020, the ECB recommended that the banks it directly supervises **refrain from distributing dividends for the 2019 financial year** or at least not distribute these before 1 October 2020 – due to the ongoing COVID-19 pandemic. Most banks have followed this recommendation. At the same time, the ECB clearly stated that it expects the **banks' shareholders to support this effort**.

On the one hand, the ECB is aiming to strengthen the capital base of banks under its direct supervision during the crisis – on the other hand, it clearly intends that banks should maintain flexibility, thus being able to grant loans in challenging times – to ensure that they can **keep supporting the economy**.

Taking all the aforementioned factors into account, the Management Board and the Supervisory Board revised their profit appropriation proposal at the beginning of April, to now propose to you, our shareholders, to **fully allocate net retained profit of €121 million** (as reported in the financial statements 2019 in accordance with the German Commercial Code) **to other retained earnings**.

The Management Board and the Supervisory Board reserve the right to reassess the market situation after 1 October 2020, if and when decisions can be taken with greater certainty regarding the impact of the COVID-19 pandemic. The ECB has explicitly granted banks the opportunity to present a further annual general meeting with **a new dividend proposal** for the appropriation of profits for the financial year 2019, if applicable.

2.3.2 Dividend policy for the financial years 2020 to 2022

As a rule, the following applies: we maintain our communicated dividend strategy for the financial years 2020 to 2022, and continue to strive for a **stable payout ratio over the long term**. Allow me to emphasise that we are firmly committed to our dividend strategy. However, during times of the pandemic, future distributions depend – and will continue to depend – upon economic viability, a generally more cautious assessment of overall economic development (particularly with regard to the real estate markets), as well as upon possible regulatory requirements and demands.

2.4 Regulatory indicators

Provided that the Annual General Meeting resolves to retain net retained profit of €121 million today, common equity tier 1 (CET1) capital will increase to €2.8 billion and regulatory capital (own funds) will rise to €3.7 billion, thus slightly improving the already stable regulatory indicators.

As at year-end 2019, pbb therefore reports a CET1 ratio of 15.9%, which includes 2019’s net retained profit. pbb thus holds a **significant capital buffer**, over and above regulatory requirements (CET1 ratio of 9.5%, or 8.4% when considering the ECB's current COVID-19-related relief measures). Furthermore, our portfolio composition requires us to maintain a countercyclical capital buffer of 0.45%; however, this buffer has also been temporarily suspended by the ECB.

2.5 Notes on the pbb share price performance

I would like to take this opportunity to talk about the pbb share price performance over the past weeks. The share price performance reflects in particular the **uncertainty pervading the markets**, but not necessarily the Bank's value. Following a positive performance up to February, our share price has now suffered above-average losses. The fact that – in comparison to other listed banks – we have suffered the lowest level of losses on a relative basis since mid-July 2015, the time of pbb's IPO, is admittedly only a small consolation. According to the current consensus of analysts covering pbb, the true market value – based on the intrinsic operative value and the Bank's risk-conservative positioning – is materially above today's share price.

Dear shareholders, allow me to **summarise my comments on the 2019 financial year as follows**:

- In a challenging environment, pbb achieved or exceeded its **new business** targets with regard to volume and quality of new business.

  The positive **pre-tax profit** of €216 million exceeded our expectations and the market forecasts.

- In view of these challenging times, we propose to you a **retention of our net retained profit of €121 million**. By allocating the amount to other retained earnings, we continue to strengthen our capital ratio and therefore contribute to the stability of the financial system.

  We will **re-assess the situation** after 1 October.

3 STRATEGIC POSITIONING AND STRATEGIC INITIATIVES

Despite the crisis – or in fact, because of the crisis – we rely on four principles based on our strategic positioning and initiatives:

1. **Risk-conservative approach as senior lender**
   In light of the crisis, we are exactly where we should be: senior loans plus high equity commitments from first-class, responsible investors and sponsors for properties in good or prime locations.

2. **Crisis equals opportunity**
   The Bank's capitalisation and expertise allow us to actively exploit chances and opportunity in the market.

3. **Organic expansion through innovation and digitalisation**
   Digitalisation is often equated with disruptive development and external growth. We are committed to expanding our business organically, focusing on the client interface, internal process efficiency, and the development of new platforms.

4. **Sustainability and environmental protection**
   Aside from how we ourselves behave, in the years to come, green properties and green funding will become key and structural challenges for the real estate industry – impacting prices, risks, and development opportunities.

3.1 Risk-conservative approach as senior lender

Due to the major uncertainty overall, especially regarding expected risk costs, we will refrain from providing a new guidance in this respect. However, we will shed some light on the **key determinants of our risk positioning** which in turn positively influence the level of future risk costs and provisioning.

3.1.1 Loss allowance recognised:

Firstly, we strengthened and expanded our **loss allowance** in the last two quarters, **in three dimensions**:

- We expanded **portfolio-based loss allowance** in December 2019 – and as at March 2020 – by more than €60 million in total, thus increasing the amount carried by 66%.

- We have calibrated the **risk parameters** probability of default (PD) and loss given default (LGD) at a significantly higher level, in line with expected requirements under Basel IV.

- We have made our **RWAs** more resilient to crises: in our core business, Commercial Real Estate Finance, we have increased the amount of risk-weighted assets by approximately 75% (and thus reduced future crisis-induced fluctuation). At the same time, we have successfully taken a substantial part of the portfolio, especially as regards public-sector financings, from the oscillations of the advanced model approach, transferring it into the (less volatile) standard approach.

In short: even if the impact of the crisis hits harder, we have significantly strengthened our balance sheet stabilisers and made the Bank more resilient.

3.1.2 Individual transaction risk buffer

Buffering individual transaction risk: the **5-barrier principle** – or loss allowance measures via a close-knit conservative lending process:

- First barrier:
  Ensuring interest payments: the average interest cover ratio (ICR) from our clients' operative net income amounts to 300%, i.e. 66% of current net income could fall away before interest is no longer paid.

- Second barrier:
  High market-induced valuation discounts may reduce collateral values. However, average loan-to-value ratios of 54% across the entire portfolio function as a strong safety buffer, demonstrating our clients' strong equity commitment.

- Third barrier:
  In the event that contractual terms (ICR covenants or lending covenants) are breached, additional liquidity, e.g. from cash reserves, from the transaction can be used to service interest or principal payments; also, investors typically maintain margins.

- Fourth barrier:
  Even if the transaction cash flows are currently insufficient due to the COVID-19 pandemic, a payment deferral or a deferral of redemption payments can be agreed upon to support and bridge the crisis-related situation, without payment delays or defaults arising.

- Fifth barrier (in fact, this should probably represent the very first barrier):
  The first step is selecting the properties and sponsors. Prime locations and crisis-proof sponsors survive the crisis.

Since we have consistently applied these criteria in the past years, and if anything, enhanced them in the past two years, we consider ourselves to be well-positioned, even for an intensive crisis period. Nevertheless, for the sake of transparency, I should mention that even these barriers are not foolproof insurance against risks.

3.1.3 Capital buffer

Our **conservative regulatory capital** levels are paying off – as a buffer against potential increased risk provisioning and risks costs or higher RWA requirements, and also as reserves, providing for our flexibility in new business: with a CET1 ratio of 16.3% and a capital base ready for implementation of Basel IV as at the end of the first quarter 2020, we are not only a frontrunner among our peers but also almost 8% above the current regulatory requirements mentioned above.

In sum: the three factors - risk provisioning, selection of individual exposures, and our capital buffer - weatherproof our ship.

3.2 Crisis equals opportunity

The Chinese characters for "crisis" and "opportunity" are identical. We not only define our capitalisation **as protection against risks, but also as potential for expanding our business**. In a situation where not all competitors have the same room for manoeuvre in terms of capitalisation, we are in a position to realise better terms and conditions, exploiting business opportunities with an attractive risk/return profile.

Again, we want to give the clear signal that we are here for our clients – and we have the capacity to do business, both in terms of capital and liquidity. In fact, given the price correction that has taken place, some sub-markets and asset classes clearly offer more attractive risk/return profiles than they did three months ago.

3.3 Organic expansion through innovation and digitalisation

We deliberately commit to organic, steady expansion and to the Bank's innovative development. We take advantage of the Bank's diversity, and continuously bring together employees from a wide variety of functions, across different locations - and from all levels of the corporate hierarchy - to develop **new ideas** for new products, and new processes. In other words: this way, we involve the entire Bank. Although this is not strictly limited to initiatives relating to digitalisation, it is true to say that all of the ideas developed in 2019 were very much along these lines. We will continue to adhere to this approach during 2020, i.e. to develop new ideas from within the Bank, rather than 'buying' them in from outside, because we consider this approach to be more constructive and, at the end of the day, cheaper than selective investments in various FinTech ventures or other stand-alone projects.

pbb's digitalisation initiatives essentially fit into one of three key areas defined in our **digitalisation strategy**, namely improving client interfaces, increasing internal efficiency, and developing new sources of income.

- Our digitalisation initiatives aim to significantly improve the **interfaces with our clients**: we provide digital insight and overview on the status of our approval processes; we inform them about contractual documentation requirements (and the status of completion); we exchange documents via electronic data rooms; we provide information on current account balances and amortisation progress – and clients submit their current business figures and tenant details, electronically.

  We will be rolling this out during the fourth quarter – or at the very least, key parts thereof. Importantly, we will have financed the requisite investments from ongoing profits.

- At the same time, a digital client interface will also help to significantly enhance the **efficiency of internal processes** – an exercise that we will commence with first projects during the second half of the year. We already deploy software robots to relieve our colleagues of more time-consuming tasks associated with lower productivity.

- When seeking to tap new sources of income through digitalisation, **platforms** are absolutely essential today. They stem from areas where supply and demand tend to be fragmented and lack transparency. Whilst platforms originally focused more on B2C relationships, today, more and more B2B relationships are becoming the main focus.

Although the market for public sector financing is well established, it tends to be organised locally. This makes it difficult for investors in particular to access the market. In 2018, pbb launched its municipal financing platform **CAPVERIANT**, a wholly-owned pbb subsidiary and basically a FinTech within the Bank. After the launch in Germany, CAPVERIANT is now also active on the French market. The platform is experiencing growing user numbers and a significant increase in the number of financing tenders.

At the same time, we are also looking into the question of whether, and if so, how and when **platforms for commercial real estate financing** will become more relevant. pbb is committed to be a part of this development.

3.4 Sustainability and environmental protection

Aside from how we ourselves behave, in the years to come, green properties and green funding will become key and structural challenges for the real estate industry – impacting prices, risks, and development opportunities. The next steps in **focusing the Bank's core business on sustainable real estate financing** are to introduce green loans and to issue green bonds. This way, we hope to meet the requirements of a broad range of stakeholders in terms of sustainable finance. For this purpose, we have defined clear sustainability criteria and standards for our lending business, and introduced a ‘green registry’.

4 PANDEMIC AND OUTLOOK

Dear Shareholders,

The **next real estate crisis** has obviously taken a grip on the world. Although it had been predicted for years – sometimes more, sometimes less – the crisis came as a surprise, since it was not driven by economic conflicts or political distortions, but by a pandemic that imposed strict limitations to private and public life, a lockdown of the economy, and travel bans.

- As one of the leading real estate finance providers, pbb **cannot escape this market development**. That is why we have recognised additional, precautionary portfolio-based stage 1 and 2 impairments, alongside fair value adjustments. As a result, taking the bank levy for 2020 into account, we have posted a profit of €2 million for the first quarter.

  Three aspects are material in this respect.

  - Net interest income was roughly in line with the average of the last four quarters. We are also **keeping our costs under control**, anticipating an unchanged cost development year-on-year. Furthermore, **new business has been in line with our planning**, thus demonstrating our **stable operating earnings base** in the first quarter of 2020. We are confident that this should also apply to the entire financial year.

  - €30 million of **impairments** (out of a total of €34 million) related almost exclusively to non-impaired exposures, for which we have recognised impairments as a purely precautionary measure, and based on model calculations. An additional €4 million in specific impairment charges related to a shopping centre in the UK, for which we had already recognised impairments.

  - In order to **prevent cyclical exaggerations**, regulators and external auditors have advised banks to assume a medium-term ('over the cycle') perspective in their assessment of the macroeconomic impact, and expected asset price developments. We have only used this relief to a very limited extent, having maintained our conservative approach.

- As already mentioned, we hold significant **capital buffers**, which materially exceed minimum regulatory requirements. Furthermore, we continue to have **sufficient liquidity at our disposal**. Looking ahead, thanks to Pfandbriefe as a crisis-proof funding instrument, customer deposits, and the ECB's extensive financing programmes, we are in a very good position as far the funding of our business is concerned.

  Therefore, we can and will continue to support our clients with their transactions. The **relationship with our clients** and a willingness to renew loans - or to grant new loans - are our top priorities.

  However, we would also like to use **business opportunities** arising from the current situation to our advantage, as we are in a position to do so. We assume that, with even stricter risk standards, we will be able to generate better margins than last year. And we expect that the combination of real new business and long-term extensions, in addition to fewer early loan repayments, will contribute to **stable portfolio development**.

- We anticipate a fast and significant **decline in real estate values in the current year**, which on certain sub-markets may continue into the second half of the year, and even into 2021. However, generally speaking and concerning most types of property, we currently anticipate a marked turnaround in the price development to already take place during the second half of 2020, with prices largely recovering over the next two years.

- We treat and monitor existing exposures as well as new business in line with the criteria which I have already outlined in the previous section. In this context, three **property types** currently find themselves **in the spotlight**.

  Retail properties currently account for around 16% of our portfolio. In the past years, we have already reduced the retail portfolio volume by one-third due to the structural changes in online business.

  Hotels account for only 5% of our portfolio and comprise only business hotels in major German cities, as well as in London and Paris.

  Finally, **development financings** – in other words, properties under construction – account for 16% of our loan book, of which nearly 80% is in Germany, with experienced investors, prime locations, and an excellent infrastructure, high pre-letting or pre-sale rates, as well as extended long stop dates.

For asset classes, which are particularly exposed during this crisis, the same logic applies as to our entire portfolio. **Conservative lending values** and a sufficcient **interest service cover ratio in almost all transactions**, reflect the stable quality of our portfolio.

I would like to take this opportunity – against the background of the pandemic, but also on a very general note – to **express sincere thanks to all of our colleagues at pbb**. It was the quality of work, but also the foresight, commitment and motivation of all pbb's staff members which have carried the Bank over recent months, and which allow us to provide a robust outlook for 2020.

5 CONCLUSION

Dear Shareholders,

Allow me to now summarise my comments:

- Our **solid pre-tax result of €216 million** in 2019 means that we have built on last year's strong performance; it furthermore documents that we consistently deliver on the guidance we provide regarding our operating business. We wish to maintain this performance in 2020 – despite head-winds.

  In view of the considerable turbulence on global markets – including real estate markets – we will continue to fortify and secure the pbb ship. We thus propose **full retention of 2019's net profit**, hence following the recommendation of the ECB and contributing to stability.

  However, we will re-visit the topic of the **dividend** in the autumn.

- We continued to make targeted **investments in pbb's future** over the course of 2019 **and will continue to do so in 2020.**

  We will continue to pursue our **digitalisation initiatives** in a highly focused manner. Our new Commercial Real Estate Finance client portal will represent another major achievement for us.

- 2020 will be influenced by the **COVID-19 pandemic**.

  pbb faces this challenge with solid capitalisation and sufficient liquidity. We are confident that our **operating business will continue to develop satisfactorily**.

  We want to support our clients with their transactions, but we shall persist in critically evaluating risks. Last but not least, we will exploit **business opportunities** in the market.

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Thank you very much for your attention.