

Annual General Meeting

**Management Board Speech**

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Check against delivery.

## 1. INTRODUCTION

Dear shareholders,  
Ladies and Gentlemen,

A very warm welcome to the Annual General Meeting of Deutsche Pfandbriefbank AG, your pbb. As in 2020, we are **holding our AGM virtually this year** because the COVID-19 pandemic is not yet sufficiently under control. As much as we would like to meet you in person, the safety and wellbeing of our shareholders and employees is paramount to us.

Ladies and Gentlemen,

The entire world has been in the **grip of the COVID 19 pandemic** for more than a year now. The impact on the global economy, and consequently on the global real estate sector – and not least also on pbb – has been profound. As things stand today, thankfully, there are some signs of cautious optimism: the vaccination rate continues to rise and a return to positive economic growth is widely expected. However, it is still not possible to predict with certainty what the impact of the crisis will be on the real estate sector. This is true for real estate space demand and property prices, and also for risks and returns involved.

For this reason, **pbb remains cautious, yet confident and forward-looking at the same time**. Our consistently risk-conservative business policy has served us well over the last few years and we are continuing with this approach in the current year. We are consistently expanding our core business in commercial real estate finance. In addition, we are expanding our business to include loans for sustainable commercial real estate, which we fund with green bonds, as demonstrated by our first green bond issue. In the context of ESG, sustainability is the next big macroeconomic and social challenge. It goes without saying that we will continue to drive pbb's digital transformation forwards.

The fact is that we can generate solid results in a difficult market environment whilst investing at the same time – the 2020 financial year under review provides compelling evidence of this. Despite the numerous uncertainty factors facing us, pbb's operating performance was convincing; we recognised extensive loss allowance for potential credit risks, and posted **a good set of results for the financial year 2020**. In fact, it has been pbb's best result in the operative lending business before risk provisioning since the IPO.

We believe that this result, combined with our strong capitalisation, puts us in a very good position to distribute a dividend of 26 euro cents per share, the maximum amount we are able to pay out to our shareholders in accordance with the ECB's current recommendation to banks. If the ECB allows a higher distribution after September 2021, we will consider an additional dividend payment for the financial year 2020 in the fourth quarter, depending on the prevailing market environment. We are sticking to our strategy and pbb's positioning as a dividend stock.

## 2. FINANCIAL YEAR 2020

### 2.1 Lending and funding

Ladies and Gentlemen,

The significantly weakened macroeconomic environment induced by the COVID-19 pandemic, which is still with us, had a significant impact on the **real estate markets** in 2020.

- **Transaction volumes** declined visibly, by around 30% on average in Europe.
- **Property values** came under pressure, albeit much less strongly on average than initially feared.

Certain sub-markets and segments, such as office and residential properties in prime locations, have moved sideways or even showed slight price increases.

However, the retail and hotel property types were – and are – still being hit especially hard, and we are now seeing increased scrutiny for office properties in B locations in particular.

In this particularly challenging market environment, **management of the credit portfolio and the selection of new business** have been, and continue to be, extremely important. I will now address both of these aspects, starting with management of our credit portfolio.

#### 2.1.1 Credit portfolio

At the very beginning of the pandemic, pbb implemented targeted measures to address the changed environment, which we can now say have paid off. For example, we allocated additional resources and also set up a separate **working group for those property types especially impacted by the crisis, and for other overarching issues**. This allows us to bundle know-how and develop solutions for very different issues, which we can then apply to our clients' individual requirements.

At the same time, we have further intensified the **monitoring of our loan portfolio**. Deviating from our regular process, we have been looking at the entire credit portfolio at an individual exposure level on a monthly basis since March 2020. Significant changes to property occupancy and property price are directly applied to valuation, RWA and, if necessary, impairments.

Despite the extreme COVID-19-related impacts, the current **pandemic effect on individual exposures** in our portfolio has been limited so far.

- For less than 75 transactions, which account for around 10% of the financing volume of our strategic portfolio, we are in especially close contact with the respective clients due to current COVID-19-related issues. Most requests concern specific arrangements on covenants, for example the suspension of certain contractual obligations, or repayment deferrals. The deferral of interest payments plays virtually no role.

- Only two transactions were formally considered as new COVID-19-related defaults. In both cases, we did not have to recognise stage 3 impairments thanks to our conservative financing positioning; in one transaction, the mezzanine investor has already repaid us without pbb incurring any losses.

All of this reflects a very risk-conservative approach to our lending activities, an approach we have followed for years, resulting in the solid credit portfolio we manage today.

### 2.1.2 New business

We have obviously **further tightened the risk parameters** for new business. New financing transactions for hotels and shopping centres have been suspended for the time being. When arranging development financing – currently occurring only sporadically – we ask for higher pre-lettings and pre-sales, for example. Also, we do not finance properties where the business plan is geared towards rent increases.

As the past year has shown: pbb is well positioned, thanks to its fundamentally risk-conservative approach.

- We focus on real estate in prime locations, with stable cash flows, good tenants, and low re-letting risks. Furthermore, we rely on professional investors who have gained experience during crises, and we make sure that loan agreements have low loan-to-value ratios and solid covenant structures.
- It is part of our business ethos to say “no” to transactions that do not meet our requirements – and that is not only true since the COVID-19 pandemic.

Despite our more selective approach, we achieved a respectable level of €7.3 billion in new Commercial Real Estate Finance business in 2020 (including extensions beyond one year). The fourth quarter was particularly strong, with new business of €3.0 billion in the REF segment.

- Gross new business margins also performed very well, increasing on a full-year basis from around 155 basis points to around 180 basis points.
- Germany remained pbb's most important individual market for Commercial Real Estate Finance with an almost unchanged share of 46%, followed by the USA and the CEE markets with 12% each. Office buildings continued to account for the majority of financed properties, with a share of 50%.

### 2.1.3 Funding

During 2020, pbb issued new long-term funding in the amount of **€3.6 billion** on the capital markets (2019: €6.7 billion).

The fact that we concentrated our **funding activities on the first quarter** once again proved beneficial. The funding we built up in advance did generate costs, because we maintain liquidity. That said, spreads for senior unsecured bonds widened very significantly – by more than 100 basis points in some cases – within a very short period of time at the end of the first quarter of 2020. Not until the third quarter did they return to their previous level. This excellent advance planning allowed us to become a good deal less dependent on market forces – and we have done the same at the end of 2020 and in early 2021.

pbb's new issuance was split equally between **Pfandbriefe and unsecured issues**. As in the past, our offering for both instruments also included issues in foreign currencies, in line with our lending business. Furthermore, we were the first bank in Continental Europe to issue a Mortgage Pfandbrief based on the new SONIA benchmark interest rate in September 2020, which was several times oversubscribed.

Overall, we actually reduced funding costs in the financial year 2020 despite the extraordinary market conditions, as the maturing bearer bonds had higher spreads on average than the newly issued funding instruments.

## 2.2 Financial performance

Ladies and Gentlemen, let us now turn to our financial performance. I will keep this very brief, as we published the Annual Report 2020 on 23 March 2021. Once again, I would like to point out that all figures are consolidated results for pbb Group, and that the financial statements have been prepared in accordance with IFRS.

### 2.2.1 Income from the lending business

**Net interest and commission income** are pbb's most important income items. The aggregate figure increased further to €485 million in 2020, compared to €464 million in 2019. This positive development has been ongoing since 2017, and we expect stable to slightly rising net interest income in 2021. I will discuss this in more detail in the outlook.

- The increase in net interest income was largely attributable to lower funding costs. In addition, floors in client business - which we were able to implement in virtually all exposures - had a positive effect as they prevented negative lending rates. Furthermore, participation in the ECB's long-term refinancing facility, the so-called TLTRO III, had a positive effect.
- As in previous years, positive effects significantly exceeded negative effects on net interest income, which are intrinsic. As pbb's Value Portfolio is being run down in line with the Bank's strategy, interest-bearing assets are declining in this segment and, given the low interest rate environment, income from investing the Bank's equity is also falling.

It is not surprising in the current market environment that **early repayment fees declined** and therefore income from realisations fell from €48 million to €26 million. On the one hand, less real estate transactions were executed, which usually involve a change of the lender. On the other hand, early repayments induced by

terms have become much less frequent – in challenging times, people tend to stay with the financing partner they trust most. Fewer early repayments means fewer prepayment fees, as well as more consistency in the portfolio and more stable future interest income.

## 2.2.2 Net income from risk provisioning

We have significantly increased risk provisioning due to the pandemic, recognising loss allowance of €126 million in 2020, compared to €49 million in 2019, representing an increase of two and a half times the previous year's provisioning.

- The greater part of this (€70 million) was down to **model-based provisions**, that is, stage 1 and 2.

These are recognised under IFRS 9 for performing exposures, where we apply model calculations based on forecasts of economic growth, unemployment figures and real estate value developments. Therefore, we are convinced that we have recognised sufficient loss allowance for pandemic-related impacts, which are currently conceivable.

- In addition, impairments of €57 million were recognised for **UK retail properties** as a result of a further decline in property valuations. This stage 3 risk provision is based on financings that have specific contractual defaults. Provisions recognised related exclusively to increased loss allowances for financings for which provisions had already been recognised in the past. There was no need for new stage 3 provisions.

**Loss allowances** now amount to €261 million, equalling a provisioning ratio of 85 basis points when considering our strategic REF portfolio.

## 2.2.3 Administrative expenses

At €204 million, administrative expenses remained stable year-on-year (2019: €202 million): We have only allowed expenses to rise very moderately over the years, even though, for example, expenses for regulatory requirements are continuously rising. We have also offset investments in our strategic initiatives – such as the development of a client portal, which I will discuss later – through efficiency gains. Therefore, the cost/income ratio in 2020 remained below the previous year's level (43%) at 42% and significantly below the market average.

## 2.2.4 Results and dividend proposal

All in all, pbb generated **profit before taxes** of €154 million, and thus a lower result than in the previous year (€216 million). However, from our perspective we have performed well overall in a difficult market environment. The fact that we generated the highest result since going public in 2020 – as I mentioned at the start – namely €280 million from the operative lending business before risk provisioning, further underlines our solid performance.

After taxes of €37 million and taking into account the AT1 coupon of €17 million, €100 million or €0.74 per share was **attributable to ordinary shareholders**. The relatively high tax rate is a result of markedly higher risk provisioning, which can be deducted from the IFRS result, but is non-deductible for tax purposes.

In light of the good results and supported by pbb's strong capitalisation, we propose a **dividend** of €0.26 per share entitled to dividend payments to you, our shareholders, corresponding to a payout ratio of 35%.

This proposal follows the ECB's current recommendation, according to which the Bank's CET1 ratio should not fall by more than 20 basis points as a result of the dividend distribution. This recommendation remains in force until 30 September 2021. Should the ECB reach a more favourable assessment of the market thereafter, allowing distributions to be increased, we will **review the possibility of a further dividend distribution**.

It is worth mentioning here that the Bank's general dividend strategy has not changed, and aims to achieve a **distribution ratio of a 50% regular dividend plus a 25% special dividend** (based on consolidated profit in accordance with IFRS after taxes and the AT1 coupon). Nevertheless, I understand the ECB's recommendation in the current situation, and I think it is right: it is also in the interest of shareholders that their bank navigates its way safely through this major crisis, supported by a solid capital base.

### 2.3 Key regulatory capital ratios

Talking about a solid capital base – in fact, regulatory capital ratios have further improved, which means that pbb continues to have a significant capital buffer.

At €17.7 billion at the end of 2020, pbb's risk-weighted assets (RWAs) were unchanged from year-end 2019. This **stable development of RWA** is the result of significantly more conservative risk parameters and use of the standard approach for our Public Investment Finance portfolio – both of which were implemented by the end of 2019. Otherwise, pandemic-related RWA increases were mostly offset by portfolio run-downs and corresponding RWA reductions in Public Investment Finance and the Value Portfolio. Stable risk weights, already calibrated at the expected Basel IV level, and the aforementioned planned portfolio run-downs also document pbb's stress resilience here.

pbb's **common equity tier 1 (CET1) capital** improved slightly at the end of the year, to €2.9 billion, and **own funds** to €3.8 billion. This was mainly attributable to the reduction of the capital deduction item of expected loss shortfalls. By significantly expanding loss allowance, this item has moved into positive territory-

Stable RWAs and increased capital levels improved the regulatory ratios by about one percentage point each. In this context, it is worth mentioning the **CET1 ratio, which rose from 15.2% at the end of 2019 to 16.1% at the end of 2020**.

Ladies and Gentlemen,

Let me **summarise the financial year 2020**:

- Even though pbb was unable to escape the impact of the COVID-19 pandemic in 2020, the Bank nevertheless posted a convincing operating performance, comprehensively accounted for possible future credit risks, and achieved a **good set of results**.

- We therefore propose to distribute to you, the shareholders, a **dividend of €0.26** per no-par value share entitled to dividends. This is in line with current ECB recommendations. If the ECB allows it, we will consider the possibility of an additional dividend payment for the financial year 2020 **in the fourth quarter**, depending on the prevailing market situation.

The Bank's basic dividend strategy, which targets a **payout ratio of 50% plus 25% special dividend**, has not changed.

### 3. STRATEGIC INITIATIVES AND OUTLOOK

#### 3.1 Sustainability and digitalisation

Ladies and Gentlemen,

It is several years ago now that we embarked on our drive towards a more sustainable approach to pbb's business policy, and embracing a more digital approach to the Bank's operations. With this in mind, we continued to consistently develop pbb's business in 2020.

##### 3.1.1 Sustainability

The issue of sustainability has taken on a new dimension in recent years. Firstly, this is demonstrated by the fact that its definition has been broadened to include environmental, social and corporate governance factors. Secondly, this topic has become a top priority for virtually all of pbb's stakeholders, including regulators and investors alike. For a long time now, our guiding principle has not just been about how pbb can avoid exerting a negative impact on the environment and society. Indeed, **Sustainable Finance** – in other words, sustainability in the financial system – refers to the inclusion of environmental, social and corporate governance aspects in the decisions of financial players. Against the backdrop of the Paris Climate Agreement of 2015, the mitigation of climate change and adaptation to its consequences have also become a focus for the financial services sector. At the end of 2019, the European Commission presented the European Green Deal, a growth strategy that aims to make Europe the first climate-neutral continent by 2050. Sustainable Finance aims to make a contribution in this context by steering private investments – as opposed to the public sector – towards a climate-neutral economy.

In this respect, we are looking at how we can adequately incorporate **ESG factors into our core lending and funding business**. We are also working on integrating climate risks into our risk management – an aspect which I will not go into here since it will be addressed separately.

- In 2020, we created a framework for issuing **green bonds**.

We successfully issued our first green bond in the first quarter of 2021. We specifically chose a senior preferred bond, which met with expected high demand. The order book was therefore significantly oversubscribed. We were also able to realise lower funding costs, but this so-called "greenium" is often low and amounts to only a few basis points for these bonds.

- We have also started to build up a database that will allow us to extend **green loans** in the future.

### 3.1.2 Digitalisation

Our **digitalisation activities** centre upon three strategic areas: Firstly, improving client interfaces – our pbb client portal; secondly, enhancing the efficiency of internal processes – our digital client and credit process; and thirdly, opening up new sources of income – for example through our CAPVERIANT credit platform:

- Building our **client portal** was an important line of work in 2020, as this will allow us to improve the interface to our clients. In particular, we are increasing transparency in the credit process for our clients and simplifying document management. However, we are also taking our first step towards digitalising the workflow end-to-end, using the client portal to streamline our internal processes.

Technically, the portal was launched at the end of 2020; it went live at the end of the first quarter of 2021, as scheduled. We are now working on bringing an increasing scope of business to the portal.

- As a logical next step, we are working towards **digitalising our client and credit process**: we started work on this in autumn 2020. In pursuit of this goal, we have launched a comprehensive programme, which we intend to implement over a two-year period; in fact, three years is not unrealistic given the broad nature of the approach.

We are in a good position to further digitalise our credit process. But we want more: numerous tasks are routine tasks and, for the most part, are done manually. This offers potential for many digital solutions, from automatic data extraction to using artificial intelligence to support analyses and decision-making. We have joined forces with fintech and proptech companies, where it makes sense; property valuations, for example, offer interesting opportunities in this context. We aim for a modular system with a consistent workflow that is efficient and improves transparency, not least for our clients.

- We have also made progress with our **CAPVERIANT** platform for municipal financing.

For a start, the platform's functionality has been expanded and improved further, and we have registered a significant increase in users and tender volumes. Right now, around 400 municipalities and institutional investors are connected to CAPVERIANT; the accumulated tender volume has surpassed the €3 billion mark.

We have also entered into a strategic cooperation with French state-owned financial institution Caisse des Dépôts et Consignations (CDC). This transaction has now been formally finalised. We expect the collaboration to yield substantial benefits for CAPVERIANT. CDC is very well connected with public sector clients in France. This should help push the market penetration of CAPVERIANT in France, and support further growth.

pbb will continue to hold a majority stake in CAPVERIANT – which is of strategic importance to us beyond its core business purpose, which we plan to continue expanding and promoting.

All three components – that is to say the client portal, the digital credit process and the CAPVERIANT platform – are building blocks for a potential platform for Commercial Real Estate Finance.

## 3.2 Outlook

What happens next will largely depend on how **fast and how sustainably the COVID-19 pandemic can be overcome**, and what shape companies' economic situations will take once government aid programmes have come to an end.

We **remain conservative**, which as you know is the pbb way. In our overall assessment for 2021 we assume that the actual macroeconomic test is yet to come; and we expect this to happen in the third and fourth quarters of this year. Two elements should prepare us well for the challenges ahead:

- firstly, our prudent **lending policy** and tight risk management of recent years have resulted in a correspondingly conservative portfolio – this will continue.
- Secondly, the increase in loss allowance. Whilst stage 1 and stage 2 loss allowances are likely to decrease, due to improved macro-economic projections, performance defaults which cannot yet be identified will probably trigger new or increased stage 3 allowance. Whether 2021 will show a balanced picture remains to be seen. Overall, risk provisioning remains the results item exposed to the greatest uncertainty.

All told, we expect **a good performance, with stable to slightly increasing income in the operative lending business**.

- In the current financial year 2021, we plan to generate between €7.0 billion and €8.0 billion in **new business** in Commercial Real Estate Finance, and could therefore slightly exceed the previous year's figure.

Our ongoing focus on prime business, however, should put pressure on **gross new business margins**, leading to a slight decrease here.

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

- We also expect stable or even slightly rising **net interest income**, driven by lower refinancing expenses.

According to our estimates, **risk costs** in 2021 should be below the levels of 2020.

We aim to keep **general and administrative expenses** at a stable level.

On balance, we expect pre-tax profit of at least €155 million.

## 4. CONCLUSION

Ladies and gentlemen,

Let me summarise my comments here:

- pbb **achieved a good set of results** for 2020. Thanks to a convincing operating performance, we generated pre-tax profits of €154 million, despite comprehensive risk provisioning in light of the pandemic. We achieved our best pre-tax profits (before risk costs) since pbb went public.
- Therefore, we suggest to pay a **dividend to our shareholders**. Our dividend proposal of 26 euro cents per dividend-bearing share is in line with the ECB's recommendation. We would like to consider the possibility of an additional dividend payment for the financial year 2020 in the fourth quarter. The Bank's basic dividend strategy with a payout ratio of 50% plus a special dividend of 25% has not changed.
- We have achieved an **even better positioning for pbb during the course of 2020 and have continued to invest**. We launched our client portal at the end of March this year, and we are now embarking on digitalising our client and credit operations. In addition, we are issuing green bonds and investing in the development of 'green' concepts for our clients. Green loans are a good example here.
- We remain cautious – but also cautiously optimistic, and expect better pre-tax profits in 2021 than in 2020.

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Thank you very much for your attention.