Media Release

DEUTSCHE PFANDBRIEFBANK

pbb's profit before taxes rises to €216 million

- Net interest and commission income increases again, to €464 million
- Higher risk provisioning of €49 million reflects deteriorating market outlook
- General and administrative expenses increased slightly to €202 million, due to regulatory projects and investment in digital initiatives
- New real estate finance business of €9 billion in line with expectations – very stable average gross margins of around 155 bp
- The Management Board and Supervisory Board will propose to the Annual General Meeting a dividend of €0.90 per share for 2019
- PBT between €180 million and €200 million guided for 2020 - pbb remains cautious on new business with new REF volume between €8 billion and €9 billion

Munich, 4 March 2020 – pbb Deutsche Pfandbriefbank once again performed strongly in the financial year 2019, despite what continued to be a very challenging environment. Profit before taxes of €216 million was slightly higher than the previous year's figure (2018: €215 million; consolidated, in accordance with IFRS) and significantly above the initial guidance (€170 million - €190 million). Net interest and commission income rose to €464 million (2018: €456 million), and operating income also increased significantly to €505 million (2018: €471 million). Higher prepayment fees of just under €40 million had a positive effect here. Increased risk provisioning of €49 million (2018: €14 million) reflects pbb's perspective of a growing likelihood of an overall economic and sector-specific downturn. The Bank invested more for the future, in terms of digital initiatives and the expansion of its US business, and implemented regulatory-driven projects. As a result, general and administrative expenses rose slightly to €202 million (2018: €193 million). These figures include savings realised by pbb through the centralisation transfer of tasks, and by streamlining its Public Investment Finance business.

Shareholders shall continue to participate in pbb's success: Of the net income attributable to ordinary shareholders of €162 million (2018: €167 million – in each case after deducting coupon payments for additional tier 1 (AT1) capital) pbb intends to distribute 50% as a regular dividend and 25% as a supplementary dividend in line with its current dividend policy. The Bank therefore intends to propose a **dividend** of €0.90 per share entitled to dividend payments to the Annual General Meeting.

pbb aims to maintain its **dividend policy** for the financial years 2020-2022. pbb will make future distributions conditional upon economic viability, a more cautious assessment of overall macroeconomic development in general and real estate markets in particular, as well as upon possible regulatory requirements and demands. pbb continues to aim at a long term stable payout ratio which it will review on a regular basis in the light of these particular risks.

New business in Commercial Real Estate Finance was in line with expectations, with a volume of €9.0 billion, only slightly down on the previous year (2018: €9.5 billion; in each case including extensions of more than one year). Its selective approach in this respect allowed pbb to maintain a stable gross new business margin of around 155 basis points compared with the previous year.

Deutsche Pfandbriefbank AG
Communications
Parkring 28
85748 Garching, Germany

CEO **Andreas Arndt** commented: "Our solid pre-tax result for 2019 means that we have been able to build on last year's strong performance. Higher risk provisioning and calibrating our RWAs in line with be expected Basel IV levels will make us more resilient to market conditions. At the same time we increased our investments in digitalisation and strengthened our market presence. Our shareholders will also once again benefit from this, thanks to a proposed dividend of €0.90 per share."

Outlook for 2020 and new dividend policy

In view of market and competitive conditions in Commercial Real Estate Finance, pbb remains cautious for 2020 and maintains its conservative risk policy. The Bank will also retain its selective stance regarding new Commercial Real Estate Finance business: at €8 billion to €9 billion, approaches previous year's levels. The Bank also anticipates a slight decline in gross new business margins in this business segment, but a moderate growth in financing volume. In Public Investment Finance, pbb aims to achieve steady financing volumes and stable margins.

Moreover, pbb is continuing to focus on a good and stable **operating performance**, while maintaining higher risk provisioning due to its more cautious market outlook. In terms of profit before taxes, pbb is aiming for a figure of between €180 million and €200 million, following an initial guidance of €170 million to €190 million for 2019. This is based on the assumption that net interest income and commission income, risk provisioning and general administrative expenses will remain stable - but revenues from prepayment fees will decrease.

pbb considers itself to be in a strong position with regard to future **capital requirements.** As expected and in line with previous capital markets communications, risk-weighted assets (RWAs) rose to €17.7 billion in the fourth quarter of 2019. The higher risk weights in strategic sub-portfolios of Commercial Real Estate Finance is geared, among other things, towards the new requirements of the European Banking Authority (EBA) and calibrate risk-weighted assets to a Basel IV-compliant level. pbb is also addressing capital markets expectations that upcoming regulatory changes need to be taken into account early on, and it cushions any cyclical fluctuations in RWAs. Due to the Bank's strong capital base, its capital ratios remain well above regulatory requirements even after these changes.

pbb is determined to continue investing in **innovation and digitalisation**. It is currently working on a client portal for Commercial Real Estate Finance. The portal site, which is currently being developed, is set to be launched in the second half of 2020.

pbb aims to maintain its **dividend policy** and intends to distribute to shareholders for the financial years 2020-2022 a regular dividend of 50% and a special dividend of 25% of consolidated net income after taxes attributable to shareholders – .i.e. consolidated net income after AT1 coupon payments. pbb will make future distributions conditional upon economic viability, a more cautious assessment of overall macroeconomic development in general and real estate markets in particular, as well as upon possible regulatory requirements and demands. pbb aims at a long term stable payout ratio which it will review on a regular basis in the light of these particular risks.

DEUTSCHE PFANDBRIEFBANK

FACTS AND FIGURES – 2019
(consolidated figures in accordance with IFRS)

1. New business

New business in 2019 totalled €9.3 billion. As expected, the volume of new Commercial Real Estate Finance business at €9.0 billion was down slightly on the previous year. Due to business re-dimensioning, the volume of new Public Investment Finance business dropped to €0.3 billion (2018: total new business of €10.5 billion, of which Commercial Real Estate Finance, €9.5 billion, including extensions of more than one year, and Public Investment Finance, €1 billion).

Germany remained pbb's most important individual regional market for **Commercial Real Estate Finance**, accounting for 47% of new business. Among the types of property financed, office buildings dominated, accounting for 50% of the total. US business accounted for 15% of new business for the year as a whole, making it currently the second-largest market for pbb (2018: 13%). Conversely, in light of the uncertainty caused by Brexit, business in the UK continued to decline with a 7% share (2018: 11%).

Gross new business margins continued to rise after the first quarter. Given that the structure of new business in the first quarter led to a gross new business margin of 135 bp, the margin for the year as a whole rose to an average of around 155 bp, the same level as in 2018.

At €33.4 billion, the **financing volume in the strategic portfolio** was on a par with the €33.2 billion at the end of 2018.

2. Refinancing

In 2019, pbb raised new **long-term funding** of €6.7 billion (2018: €5.2 billion). The increase was attributable to significantly higher volumes of unsecured issues, which increased to €3.6 billion (2018: €1.6 billion). Pfandbrief issues were somewhat lower at €3.2 billion (2018: €3.6 billion). pbb continued to issue unsecured bonds, almost exclusively in the form of so-called "senior preferred" issues, which offer a lower risk premium than senior non-preferred bonds due to their better positioning in the liability cascade. As in the past, besides euro-denominated issues, pbb has also raised funding in foreign currencies.

Issuing spreads (over 3-month Euribor) remained higher in 2019 compared with the previous year; they averaged 15 bp for Mortgage Pfandbriefe (2018: 6 bp) and 21 bp for Public-Sector Pfandbriefe (2018: 0 bp). For unsecured issues, spreads averaged 74 bp (2018: 42 bp, with a lower portion of senior preferred bonds).Funding costs in the year under review remained below the levels of maturing funding instruments.

3. Regulatory capital ratios
(consolidated figures in accordance with IFRS)

As expected, and in line with capital market communications to date, risk-weighted assets (RWAs) rose during the fourth quarter of 2019 and totalled €17.7 billion at year-end. This increase was attributable to higher risk weights in strategic sub-portfolios of commercial real estate financing, which is geared towards the new requirements of the European Banking Authority (EBA) and the international banking regulations of Basel IV. pbb is also addressing capital markets expectations that upcoming regulatory changes need to be taken into account early on, and it cushions any cyclical fluctuations in RWAs.

As a result of the increase in RWAs, pbb's capital ratios have declined, but remain well above the regulatory requirements and at a very good level compared with the rest of the industry. Following determination of the financial statements (including appropriation of profits), the ratios are as follows:

- The **CET1 ratio** at the end of December 2019 was 15.2% (12/18: 18.5%, 09/19: 18.3%); the **Tier 1 ratio** was 16.9% (12/18: 20.5%, 09/19: 20.4%).
- The **Own Funds Ratio** was 20.4% at the end of 2019 (12/2018: 24.9%, 09/2019: 24.8%).
- The **Leverage Ratio** stood at 5.4% (12/2018: 5.3%; 06/2019: 5.0%).

Within the scope of the Supervisory Review and Evaluation Process (SREP), supervisory authorities assess and measure the risks banks are exposed to. The SREP requirement for common equity tier 1 (CET1) capital was set at 9.5% for pbb from 1 January 2020 on a consolidated basis, and has remained stable compared to the previous year. The ratio is derived from the so-called Total SREP Capital Requirement (TSCR) of 7% CET1 plus the capital conservation buffer of 2.5% CET1. In addition, pbb must maintain an anticipated countercyclical capital buffer of 0.45% (2019: 0.35%). The SREP Total Capital Requirement (TSCR) in relation to own funds is 10.5%, on a consolidated basis.

4. Consolidated income statement

Net interest income of €458 million was slightly higher than in the previous year (2018: €450 million). This increase was due to a rise in the volume of interest-bearing loans granted. The increase in the average volume of strategic Commercial Real Estate Finance of €27.4 billion (2018: €25.8 billion) more than compensated for the decline in the Value Portfolio, in line with the Bank's strategy. The Bank’s total margin has increased slightly as a result of the stronger weighting of Commercial Real Estate Finance and the maturities of higher interest-bearing liabilities. Net interest income was burdened, as in the previous year, by the negative interest rate environment affecting the investment of free liquidity and own funds, but benefited from income from floors in customer business.

Net fee and commission income from non-accruable fees was unchanged year-on-year at €6 million (2018:€6 million).

Net income from fair value measurement totalled €–7 million (2018: €–9 million). Increases in value resulted in particular from non-derivative financial instruments, which must be recognised at fair value in accordance with IFRS 9. The result was burdened by expenses from the pull-to-par effect, i.e. the gradual convergence of the positive fair value of derivatives towards zero as they approach their maturity date. These expenses were partially offset by credit and interest rate-driven value appreciation.

Net income from realisations rose to €48 million (2018: €32 million). This increase was due to a higher level of prepayment fees, which amounted to €39 million in the period under review (2018: €16 million). This item also comprised €11 million (2018: €10 million) in reversals of fees not yet received due to the early derecognition of financial instruments, as well as €1 million in expenses for the redemption of liabilities (2018: income of €6 million) and from disposals of securities (2018: income of €1 million).

Net income from hedge accounting amounted to €–2 million (2018: €–1 million). Hedges were largely effective thanks to close monitoring and management of interest rate risk.

Net other operating income of €3 million (2018: €–7 million) was affected by reversals of provisions, for example as a result of the positive development of legal risks.

Net income from risk provisioning amounted to €49 million (2018: €14 million). The increase was primarily attributable to non-credit-impaired financial instruments, for which impairment losses are determined using a model. Net additions for level 1 and 2 financial instruments amounted to €16 million (2018: net reversals of €9 million). This increase resulted from two accounting-related changes in estimates. Firstly, in order to determine the expected credit loss for stage 1 and 2 impairments, the pbb Group has given a heavier weighting to the probability of an economic downturn and declining real estate market values compared to the previous year, due to downgraded overall economic and sector-specific forecasts and increasing global risks. This led to an increase in impairments of €20 million.

Secondly, stage 1 and 2 impairments increased by €11 million as a result of additions to the loss database, partly due to the change in the regulatory definition of default and the fact that a longer time period was taken into account. Among other things, the additional data resulted in an adjustment (recalibration) of the models used to determine probability of default (PD) and loss given default (LGD). These regulatory parameters influence expected credit losses, adjusted to meet IFRS 9 requirements. Apart from the accounting related changes in estimates, there were reversals of impairments for non-credit-impaired financial assets, as a result of lower default probabilities and default loss rates, mainly for certain Southern European counterparties, early loan repayments and shortened remaining terms.

Additions to stage 3 impairments related to financings of shopping centres in the UK of €33 million (2018: €19 million), while there were only minor reversals for financings with impaired credit ratings in other regions. Moreover, additions to provisions for unconditional loan commitments of €1 million (2018: €5 million) were offset by income from amounts recovered on receivables written off of €1 million (2018: €1 million).

General and administrative expenses of €202 million were slightly above the same period of the previous year (€193 million). This was mainly due to non-personnel expenses, which rose partly as a result of the costs of implementing new regulatory requirements.

Expenses for bank levies and similar duties of €24 million (2018: €25 million) mainly comprised expenses for bank levies, taking into account 15 per cent (€20 million) pledged collateral (2018: €21 million). This item also comprised expenses of €4 million (2018: €4 million) for the private and statutory deposit guarantee schemes.

Net income from write-downs and write-ups on non-financial assets of €–18 million (2018: €15 million) included scheduled depreciation of tangible assets and amortisation of intangible assets. The year-on-year increase resulted from write-downs on rights of use under leases, to be reported in accordance with IFRS 16. IFRS 16 was applied with a modified retrospective effect in the reporting period, based on the transitional provisions as defined in the standard. Figures for the same period of the previous year remain unchanged.

Net income from restructuring of €3 million (2018: €–9 million) was boosted by income from the reversal of provisions in human resources. The reversals were mainly possible because employees transferred from the restructured divisions to other areas within the Group. During the previous year, there were additions to restructuring provisions relating to the reorganisation of the business activities in Public Investment Finance and the centralisation of infrastructure tasks.

Income taxes of €37 million (2018: €36 million) resulted from an actual tax expense of €22 million (2018: expense of €35 million) and a deferred tax expense of €15 million (2018: expense of €1 million). Changes to current and deferred tax items resulted from the tax authorities' amendments to the tax treatment of a large-volume, multi-year transaction.

Net income after taxes amounted to €179 million (2018: €179 million), of which €162 million (2018: €167 million) was attributable to ordinary shareholders and €17 million (2018: €12 million) to AT1 investors.

Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS, € million)	**Q4/18**	**2018**	**Q1 2019**	**Q2/19**	**Q3/19**	**Q4/19**	**2019**
Net interest income	116	450	116	113	112	117	458
Net fee and commission income	2	6	1	2	1	2	6
Net income from fair value measurement	-11	-9	-2	-5	5	-5	-7
Net income from realisations	9	32	6	10	15	17	48
Net income from hedge accounting	-	-1	-1	-	-2	1	-2
Net other operating income/expenses	5	-7	-1	-1	2	3	3
Operating income	**121**	**471**	**119**	**119**	**133**	**135**	**506**
Net income from risk provisioning	-5	-14	-1	1	-10	-39	-49
General and administrative expenses	-57	-193	-46	-47	-48	-61	-202
Expenses from bank levies and similar dues	-2	-25	-21	-1	-1	-1	-24
Net income from write-downs and write-ups on non-financial assets	-4	-15	-4	-4	-5	-5	-18
Net income from restructuring	-9	-9	1	1	1	-	3
Profit before taxes	**44**	**215**	**48**	**69**	**70**	**29**	**216**
Income taxes	-3	-36	-8	-10	-14	-5	-37
Net income after taxes	**41**	**179**	**40**	**59**	**56**	**24**	**179**

Key ratios (%)	**Q4/18**	**2018**	**Q1 2019**	**Q2/19**	**Q3/19**	**Q4/19**	**2019**
Cost/income ratio	50.4	44.2	42.0	42.9	39.8	48.9	43.5
Return on equity before taxes	5.5	7.1	6.0	9.0	9.2	3.4	6.9
Return on equity after taxes	5.1	5.9	4.9	7.6	7.3	2.7	5.7

Balance sheet data (IFRS, € bn)	**12/18**	**12/18**	**03/19**	**06/19**	**09/19**	**12/19**	**12/19**
Total assets	57.8	57.8	60.3	60.1	59.8	56.8	56.8
Equity	3.3	3.3	3.3	3.2	3.2	3.2	3.2
Financing volume	46.4	46.4	47.1	46.4	46.3	45.5	45.5

Please note: The following applies to the entire press release: Quarterly figures are unaudited; half-year figures were reviewed by external auditors; all annual financial statement figures are audited.

Media contacts
Walter Allwicher, +49 89 2880-28787, walter.allwicher@pfandbriefbank.com