Media Release

pbb's pre-tax profit – whilst stable in operating terms – falls to €2 million, due to COVID-19-related effects of €45 million

- At €113 million, net interest and commission income almost matches the results of the same quarter of 2019
- Risk provisioning recognised in an amount of €34 million – of which €32 million was induced by the COVID-19 pandemic
- Widened credit spreads have turned net income from fair value measurement negative: €-17 million, of which €13 million was attributable to COVID-19
- New Commercial Real Estate Finance business of €1.6 billion originated in line with plan, and in accordance with conservative risk assessment

Munich, 13 May 2020 – As reported on 4 May 2020, extraordinary effects related to the COVID-19 pandemic have burdened profit before taxes of Deutsche Pfandbriefbank AG (pbb) for the first quarter of 2020: despite good operating earnings, the net figure fell to €2 million (Q1 2019: €48 million; consolidated figures in accordance with IFRS). Specifically, at €113 million, the aggregate of net interest income and net commission income was almost in line with the results of the same quarter of the previous year (Q1 2019: €117 million) – general and administrative expenses amounted to €48 million (Q1 2019: €46 million). Conversely, net income from risk provisioning rose markedly, to €-34 million (Q1 2019: €-1 million), predominantly model-driven, whilst net income from fair value measurement declined to €-17 million (Q1 2019: €-2 million), due especially to wider credit spreads. In addition, the estimated burden from the bank levy of approximately €20 million was recognised for the full year (Q1 2019: €20 million – the figures incorporate pledged collateral of 15% in each case). Excluding the extraordinary burdens caused by the COVID-19 pandemic, pbb would have generated pre-tax profit of €47 million in the first quarter.

pbb withdrew the forecast for the full year 2020 on 4 May 2020. In particular, the development of risk provisioning and net income from fair value measurement cannot be reliably forecast, due to uncertainty concerning the macroeconomic environment and real estate market developments. pbb anticipates an economic recovery commencing in the second half of 2020, with a gradual recovery of market values for most property types over subsequent years. Hence, the Bank expects stable operating performance in terms of net interest income and general and administrative expenses for 2020.

Net interest income was affected, on the one hand, by the lower portfolio of interest-bearing financings; on the other hand, it was burdened by the usual extensive funding activities at the beginning of the year, as well as a notable excess of funding raised in the previous year. **General and administrative expenses** increased compared to the first quarter of 2019, especially due to higher non-personnel expenses for regulatory projects.

Net income from risk provisioning comprises model-based loss allowances of €30 million for non-credit impaired financings (stages 1 and 2), plus €4 million risk provisioning on credit-impaired financings (stage 3; Q1 2019: €1 million in stages 1 and 2, and €0 million in stage 3 – all figures are on a net basis). Of these totals, €32 million (gross) was directly attributable to the effects of the COVID-19 pandemic. pbb had already markedly raised model-based risk provisioning for the fourth quarter of the previous year.

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The changed situation on real estate markets during the first quarter due to the COVID-19 pandemic did not yet have a material impact on pbb's **new business volume** in Commercial Real Estate Finance. At €1.6 billion, it came in at the planned level, below the figure for the same quarter of the previous year (Q1 2019: €1.9 billion – in each case including extensions beyond one year). At the same time, the average gross margin on new business rose to more than 170 basis points (bp), compared to an average of approximately 155 bp for the full year 2019.

CEO **Andreas Arndt** commented: "We are still confident of being able to achieve a good operating performance, but uncertainty caused by the volatile environment currently does not permit any reliable forecast for the year 2020. pbb is well capitalised and has the necessary liquidity to support clients with their transactions, and to exploit business opportunities in the market."

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FACTS AND FIGURES for the first quarter of 2020
(consolidated figures in accordance with IFRS)

1. New business

New business amounted to a total of €1.7 billion in the first quarter of 2020 (Q1 2019: €2.0 billion), with Commercial Real Estate Finance accounting for €1.6 billion (including extensions of more than one year). New Public Investment Finance business was stable, at €0.1 billion.

Germany not only remained pbb's most important individual market in **Commercial Real Estate Finance**: the share in new business increased to 58%. The US remained in second position, with a share of 14%. Traditionally, office buildings account for the majority of financed properties: in the first quarter of 2020, their share was 44%.

Margins continued to develop favourably, with the average gross margin on new business rising to above 170 bp. In the current market environment, pbb expects to be able to maintain gross margins on new business at this level, or to moderately increase them.

At €33.1 billion, the **financing volume in the strategic portfolio** was slightly lower than the €33.4 billion seen at the end of 2019. pbb anticipates two market trends to support portfolio development: in the current market environment, prepayments are expected to decline, whilst long-term extensions are expected to rise.

2. Funding

In the first quarter of 2020, pbb raised new long-term **funding** of €1.9 billion (Q1 2019: €2.7 billion), thus covering its funding requirements well into the second half of the year. The total amount of funding comprised both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. Pfandbriefe accounted for €1.3 billion (Q1 2019: €1.5 billion), approximately two-thirds of the total volume. Unsecured funding accounted for €0.7 billion (Q1 2019: €1.2 billion), with almost all of the volume being issued as Senior Preferred bonds. Most transactions were denominated in Euro (with some issues in Swedish krona), and were placed as fixed-rate bonds.

The bulk of the issues were placed during January and February, and thus prior to the impact of the coronavirus pandemic on funding markets. Hence, **issuing spreads** (over 3-month Euribor) were lower than in the same quarter of the previous year, averaging 13 bp for Mortgage Pfandbriefe (Q1 2019: 16 bp), 5bp for Public-sector Pfandbriefe (Q1 2019: 21 bp) and 55 bp for unsecured issues (Q1 2019: 78 bp).

3. Regulatory indicators
(consolidated figures in accordance with IFRS)

Risk-weighted assets (RWAs) declined slightly in the first quarter of 2020, to €17.3 billion, due to technical effects. The calculation of regulatory indicators is based on the assumption that net retained profit (as reported in the financial statements 2019 in accordance with the German Commercial Code) will be fully allocated to other retained earnings, instead of distributing dividends. The Management Board and the Supervisory Board had adopted a corresponding revised proposal for the appropriation of profits at the beginning of April; the Company's Annual General Meeting on 28 May 2020 will resolve on this matter. Including net retained profit for 2019 of €121 million, common equity tier 1 (CET1) capital amounts to €2.8 billion; own funds stand at €3.7 billion.

Given the RWA decline and the increase in regulatory capital, **regulatory indicators** improved as at the end of March 2020, compared to the 2019 year-end. (To facilitate comparison, ratios as at the end of 2019 were adjusted on a pro-forma basis, by incorporating the higher capitalisation.)

- The **CET1 ratio** increased to 16.3% (31 Dec 2019: 15.9%); the **Tier 1 ratio** was 18.0% (31 Dec 2019: 17.5%).
- The **own funds ratio** was calculated at 21.6% (31 Dec 2019: 21.1%).
- The **leverage ratio** amounted to 5.6% (31 Dec 2019: 5.6%).

The ECB, as pbb's regulator, set the **SREP requirement** for pbb's common equity tier 1 (CET1) capital at 9.5% from 1 January 2020 on a consolidated basis, keeping it stable compared to the previous year. In addition, pbb must maintain a countercyclical capital buffer of 0.45% (2019: 0.35%). The SREP Total Capital Requirement in relation to own funds is 10.5%, on a consolidated basis.

In response to the COVID-19 pandemic, the ECB adjusted SREP requirements for banks under its supervision, with effect from 12 March 2020: they are now permitted to hold approximately 1.4% (56.25%) of the additional own funds requirement of 2.5% in the form of CET1 capital, and 1.9% (75%) as T1 capital. As a result, pbb's SREP requirement was reduced to approximately 8.4% CET1; the own funds requirement has remained unchanged, at 13.0%. pbb therefore continues to maintain a significant buffer with regard to regulatory requirements, without having to resort to capital relief rules at present.

4. Income statement

Over and above capital and liquidity relief measures, in order to prevent cyclical overreactions, EBA, ESMA and the ECB have highlighted relief measures under International Financial Reporting Standards, which are supported by the International Accounting Standards Board as well as the Institute of Public Auditors in Germany (IDW) as interpretation guidance regarding applicable accounting standards. When determining quarterly results, pbb waived most of these relief options: only with regard to measures designed to smoothen the economic cycle, pbb has applied a medium-term context to assumptions regarding the development of real estate prices in 2020. Conversely, provisions of IFRS 9 were taken into account, including adverse scenarios to determine loss allowances and stage migration for impairments.

The slight decline in **net interest income** (€111 million; Q1 2019: €116 million) reflected a lower portfolio of disbursed (and hence, interest-bearing) REF financings (averaging €26.9 billion; Q1 2019: €27.3 billion), and of the non-strategic Value Portfolio. Moreover, precautionary funding at the beginning of the year burdened net interest income. As in the previous year, pbb profited from floors agreed upon with clients, given the negative interest rate environment.

Net fee and commission income from non-accruable fees of €2 million remained almost unchanged year-on-year (Q1 2019: €1 million).

Net income from fair value measurement (€-17 million; Q1 2019: € -2 million) was negatively influenced by the changed situation as a result of the coronavirus pandemic. Specifically, this was the effect of widening credit spreads for non-derivative financings, which must be reported at fair value through profit and loss – primarily involving risk exposures to German Federal states. The aggregate volume of financial instruments which must be reported at fair value through profit and loss was €356 million at the end of March 2020, and thus on a relatively low level overall.

Net income from realisations (€14 million; Q1 2019: €6 million) rose year-on-year, due to higher earnings from the disposal of financial instruments. Such disposals resulted from, amongst other things, early repayment of client loans.

Net income from hedge accounting of €-1 million (Q1 2019: €-1 million) was due to ineffective portions from hedging relationships within the permissible range.

Net other operating income (€1 million; Q1 2019: €-1 million) included an addition as well as a reversal of provisions for legal and tax-related items, each having a volume of less than €5 million.

Net income from risk provisioning (€-34 million; Q1 2019: €-1 million) was burdened by the impact of the coronavirus pandemic. When determining risk provisions, applying an unchanged methodology and using the probability-weighted average of various scenarios, information about past events, current conditions and forecasts of future economic developments were incorporated.

As a consequence of the coronavirus pandemic, assessments of macroeconomic and sector-specific forecasts and of scenario probability weightings as at 31 March 2020 were changed – oriented, inter alia, upon the special report of the German Council of Economic Experts (*Sachverständigenrat*) published on 30 March 2020. The adjusted economic and sector-specific forecasts led to higher risk provisioning on non-credit-impaired financial instruments (stage 1 and 2 impairments) by €30 million (Q1 2019: €-1 million; all figures are on a net basis). €4 million in additional risk provisioning was required for credit-impaired financings (stage 3 impairments; Q1 2019: €0 million – all figures are on a net basis); this effect was largely attributable to a loan for a shopping centre in the United Kingdom, for which impairments had already been recognised.

General and administrative expenses of €48 million were slightly above the same period of the previous year (€46 million), mainly as a result of higher non-personnel expenses due to regulatory projects.

Expenses from bank levies and similar dues (€21 million; Q1 2019: €21 million) mainly comprised estimated expenses for the bank levy, taking into account pledged collateral amounting to 15% (€20 million; Q1 2019: €20 million). Furthermore, this line item comprised expenses of €1 million (Q1 2019: €1 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets (€-5 million; Q1 2019: €-4 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The increase compared to the same quarter of the previous year reflected amortisation of the right of use (capitalised in mid-2019) for the Bank's new office building in Garching.

There were no material additions to, or reversals of, **restructuring provisions** during the first quarter of 2020. The previous year's net income from restructuring related to income from the reversal of provisions related to human resources.

The average effective **tax rate** for the full year 2020 is expected to be 16%. This is applied to pre-tax profit in accordance with IAS 34, which did not lead to any material burden of the current quarterly results. Income taxes for the same period of the previous year (€-8 million) were due exclusively to current taxes.

Profit after tax amounted to €2 million (Q1 2019: €40 million), of which €-2 million (Q1 2019: €36 million) was attributable to ordinary shareholders and €4 million (Q1 2019: €4 million) to AT1 investors (on a pro-rata basis).

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Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS, € million)	**Q1/19**	**Q2/19**	**Q3/19**	**Q4/19**	**2019**	**Q1/20**
Net interest income	116	113	112	117	458	111
Net fee and commission income	1	2	1	2	6	2
Net income from fair value measurement	-2	-5	5	-5	-7	-17
Net income from realisations	6	10	15	17	48	14
Net income from hedge accounting	-1	-	-2	1	-2	-1
Net other operating income/expenses	-1	-1	2	3	3	1
Operating income	**119**	**119**	**133**	**135**	**506**	**110**
Net income from risk provisioning	-1	1	-10	-39	-49	-34
General and administrative expenses	-46	-47	-48	-61	-202	-48
Expenses for bank levies and similar dues	-21	-1	-1	-1	-24	-21
Net income from write-downs and write-ups on non-financial assets	-4	-4	-5	-5	-18	-5
Net income from restructuring	1	1	1	-	3	-
Profit before taxes	**48**	**69**	**70**	**29**	**216**	**2**
Income taxes	-8	-10	-14	-5	-37	-
Net income after taxes	**40**	**59**	**56**	**24**	**179**	**2**

Key ratios (%)	**Q1/19**	**Q2/19**	**Q3/19**	**Q4/19**	**2019**	**Q1/20**
Cost/income ratio	42.0	42.9	39.8	48.9	43.5	48.2
Return on equity before taxes	6.0	9.0	9.2	3.4	6.9	-0.3
Return on equity after taxes	4.9	7.6	7.3	2.7	5.7	-0.3

Balance sheet data (IFRS, € bn)	**03/19**	**06/19**	**09/19**	**12/19**	**12/19**	**03/20**
Total assets	60.3	60.1	59.8	56.8	56.8	56.6
Equity	3.3	3.2	3.2	3.2	3.2	3.2
Financing volume	47.1	46.4	46.3	45.5	45.5	45.0

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.

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