

Good operating performance in Q1/20, but results affected by COVID-19 pandemic – PBT of EUR 2 mn

Results Q1 2020

Media Briefing, 13 May 2020

Andreas Arndt

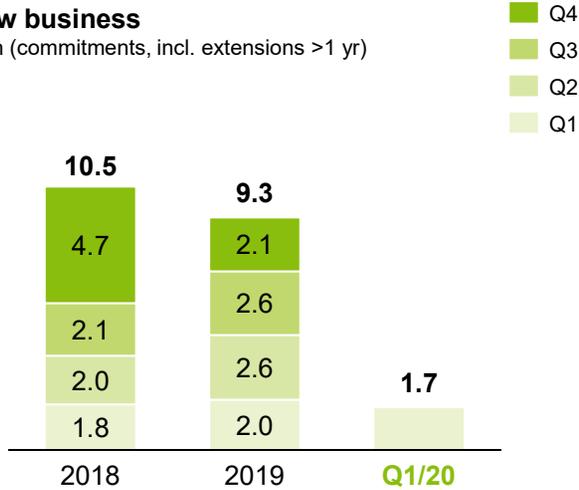
CEO/CFO

Deutsche Pfandbriefbank AG

Operating and financial overview

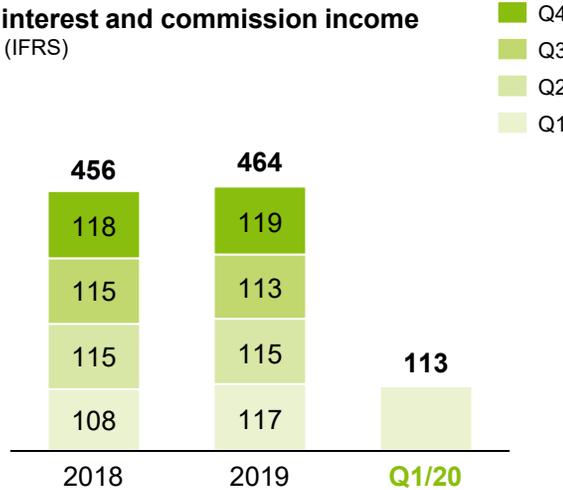
New business

€ bn (commitments, incl. extensions >1 yr)



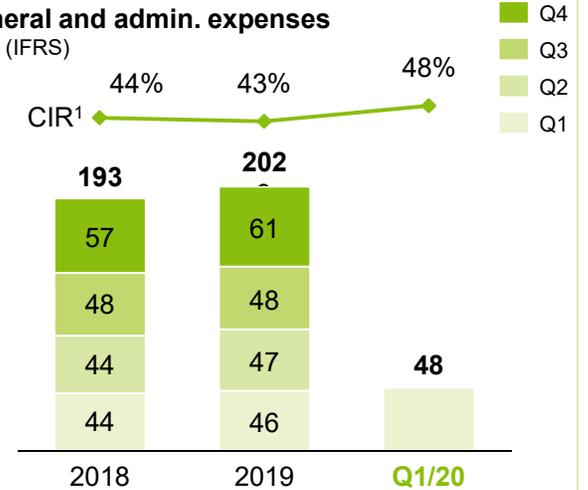
Net interest and commission income

€ mn (IFRS)



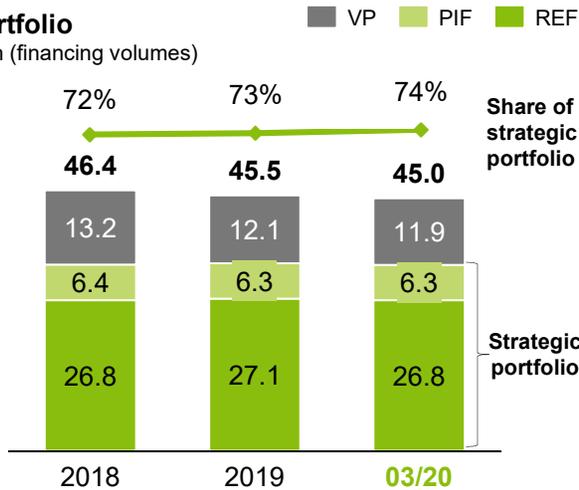
General and admin. expenses

€ mn (IFRS)



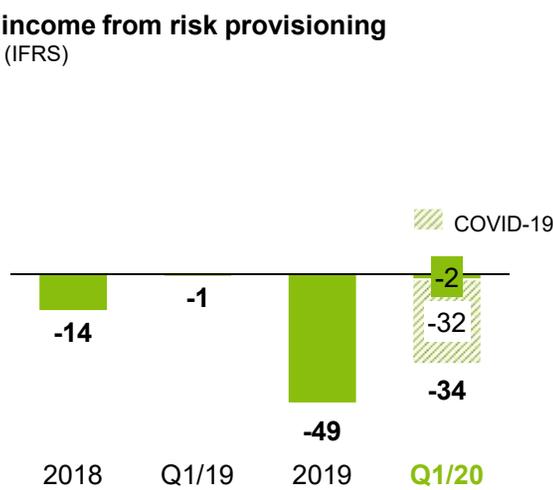
Portfolio

€ bn (financing volumes)



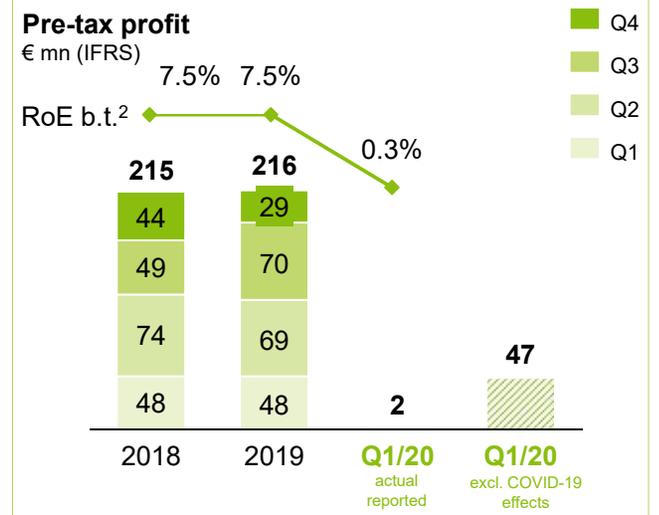
Net income from risk provisioning

€ mn (IFRS)



Pre-tax profit

€ mn (IFRS)



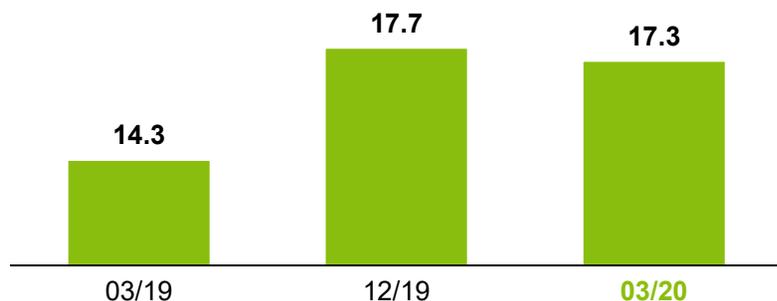
Note: Figures may not add up due to rounding 1 New definition: CIR = (GAE + net income from write-downs and write-ups on non-financial assets)/operating income 2 Excl. AT1 coupon (2018: pro-rata € 12 mn; 2019: € 17 mn; Q1/20: pro-rata € 4 mn)

Capital

Capitalisation remains strong – withdrawal of dividend proposal and full retention of 2019 profit follows ECB recommendation and accounts for COVID-19 pandemic uncertainties

Basel III: RWA

€ bn (IFRS)



Basel III: Equity and capital ratios

(IFRS)

Capital in € bn	03/19 ¹	12/19		03/20 ³
		reported	full profit retention ²	
CET 1	2.7	2.7	2.8	2.8
AT 1	0.3	0.3	0.3	0.3
Tier 2	0.6	0.6	0.6	0.6
Total Equity	3.6	3.6	3.7	3.7

Capital ratios in %	03/19 ¹	12/19		03/20 ³
		reported	full profit retention ²	
CET 1	18.8	15.2	15.9	16.3
Tier 1	20.9	16.9	17.5	18.0
Own funds	25.4	20.4	21.1	21.6
Leverage ratio	5.1	5.4	5.6	5.6

Note: Figures may not add up due to rounding

1 Excl. interim result, post dividend 2018 2 Retrospectively adjusted, incl. full-year result 2019 due to withdrawal of dividend proposal for 2019

RWA development Q1/20:

- RWA down € 0.4 bn q-o-q mainly due to technical effects (e.g. regular reviews, construction completions, reclassification effects) – increase as of 12/19 resulted from LGD parameter recalibration, anticipating EBA and Basel IV

Capital ratios – dividend impact:

- Capital position strengthened by full retention of 2019 profit due to withdrawal of dividend proposal
- 12/19 retrospectively adjusted – +0.7%-pts to 15.9%³
- 03/20 CET 1 ratio at 16.3%²
- Withdrawal of dividend proposal for 2019 follows ECB recommendation related to COVID-19 pandemic – market situation will be re-assessed after 1 October 2020 when the impact of the COVID-19 pandemic provides for greater certainty

SREP requirements 2020:

- SREP requirements:
 - CET 1 ratio: 9.5%
 - Tier 1 ratio: 11.0%
 - Own funds ratio: 13.0%
- ECB's Banking Supervisory Committee lowered requirements due to COVID-19 as of 12.03.2020 with 1.09%-pts CET1-relief for pbb
- Anticipated countercyclical buffer stable at 45bp, temporarily suspended

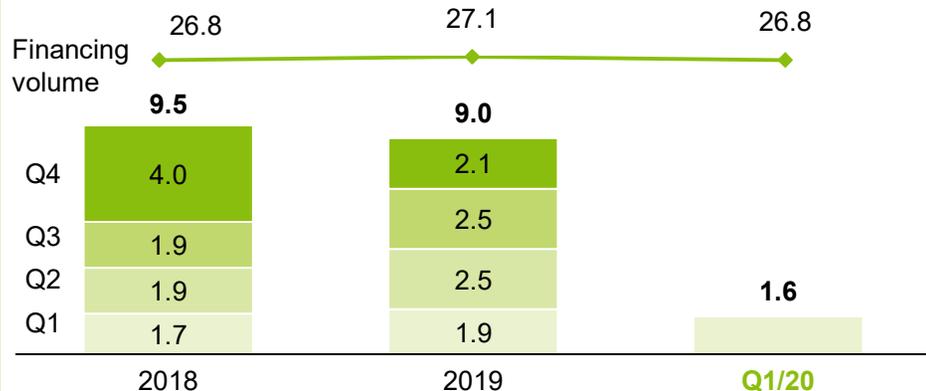
3 Excl. interim result, incl. full-year result 2019 due to withdrawal of dividend proposal for 2019

New business

REF new business volume of € 1.6 bn on solid level in Q1/20 – however, currently lower investment activity observed due to COVID-19 pandemic

REF New business

€ bn (commitments, incl. extensions >1 yr)



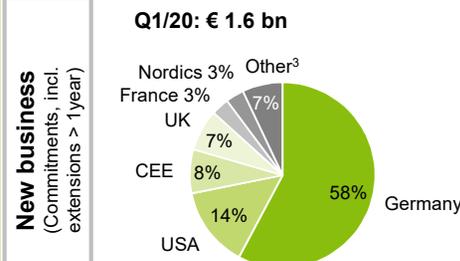
Key drivers Q1/20:

- New business **volume** stays on solid level while pbb remains highly selective
 - COVID-19 not yet showing full effect
 - However, currently lower investment activity observed due to COVID-19 pandemic
- **REF** – core portfolio with moderate growth strategy
 - Continued selective approach with focus on conservative risk positioning (avg. LTV 56%²)
 - Avg. REF gross interest margin up to >170 bp (2019: ~155 bp), reflects positive margin development since mid 2019
 - Deal pipeline provides for some backlog – but investors and pbb are currently cautious
- **PIF** – portfolio on hold with low new business volume of € 0.1 bn in Q1/20 (2019: € 0.3 bn)

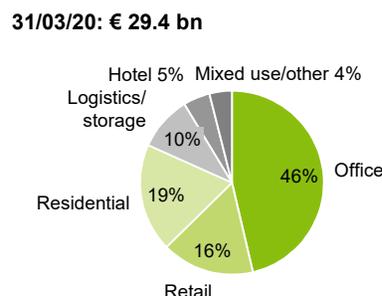
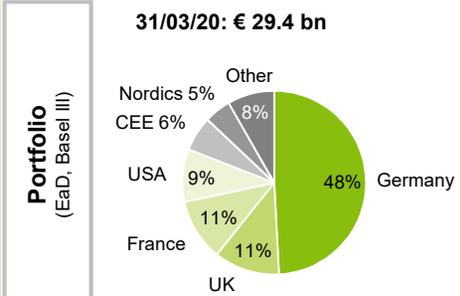
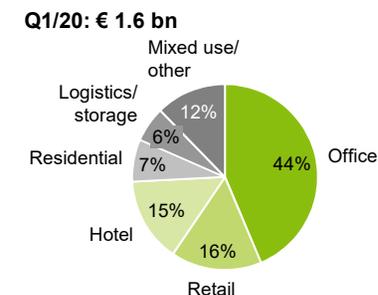
REF new business

	Q1/19	FY19	Q1/20
Total volume (€ bn)	1.9	9.0	1.6
<i>thereof:</i>			
Extensions >1 year	0.2	1.9	0.4
No. of deals	29	155	32
Avg. maturity (years) ¹	~5.9	~4.6	~4.4
Avg. LTV (%) ²	58	58	56
Avg. gross interest margin (bp)	~130	~155	>170

Regions



Property types



Note: Figures may not add up due to rounding 1 Legal maturities 2 New commitments; avg. LTV (extensions): Q1/20: 47%; 2019: 55% 3 Netherlands

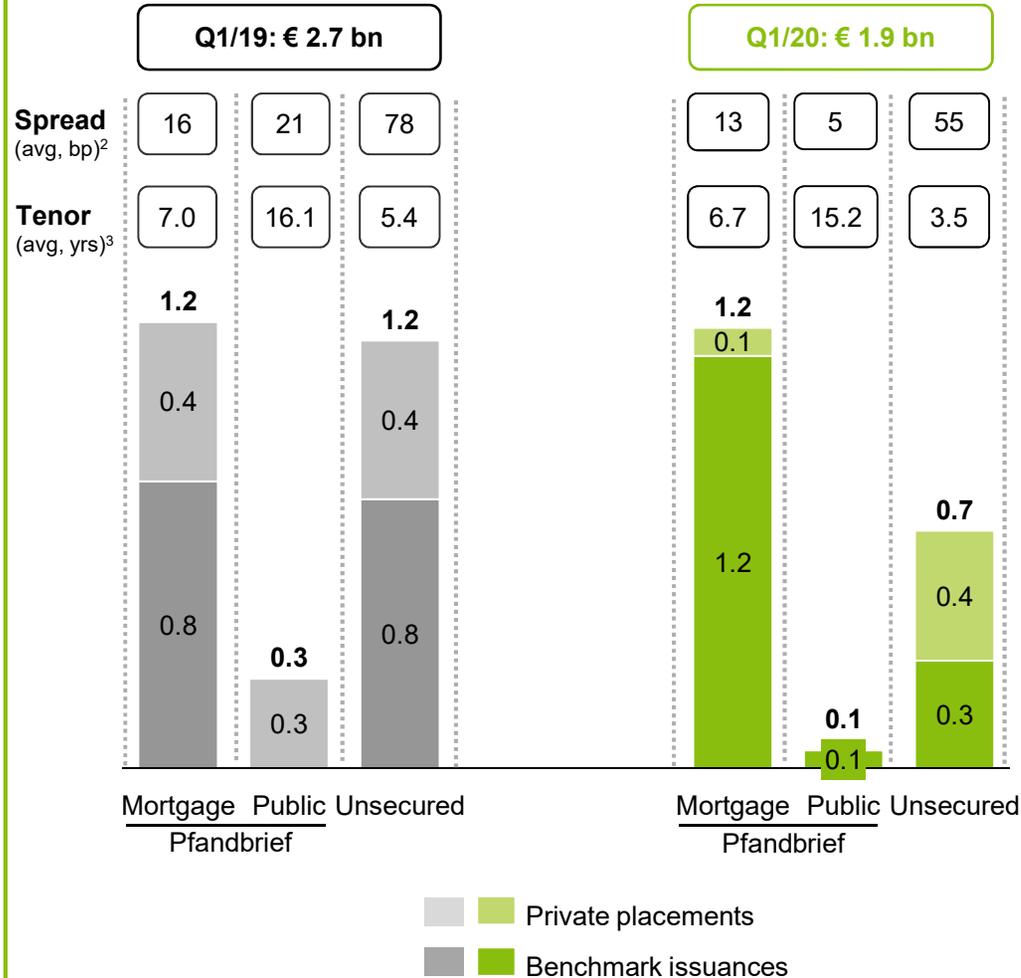
Funding

Strong funding activities pre COVID-19 crisis at attractive levels



New long-term funding¹

€ bn



Funding Q1/2020

- Strong **funding activities** at lower avg. **funding spreads** y-o-y – Q1/20 **funding targets** already met mid-February
 - **Pfandbrief** volume dominated by benchmark issuances
 - € 1.2 bn (one € 750 mn benchmark plus taps)
 - SEK 400 mn Mortgage Pfandbrief issued in January
 - **Senior Unsecured** issuance with strong focus on senior preferred bonds in both EUR and SEK
 - € 0.3 bn floater benchmark issued in January plus strong private placement activities with € 0.2 bn and SEK 1.3 bn
- **pbb direkt** – total volume reduced to € 2.7 bn (12/19: € 2.8 bn) to further optimise funding costs; average maturity⁴ increased slightly to 4.3 years (12/19: 4.2 yrs)
- **ALM profile** and **liquidity position** remain comfortable (NSFR >100%; LCR >150%)

Note: Figures may not add up due to rounding 1 Excl. retail deposit business 2 vs. 3M Euribor 3 Initial weighted average maturity 4 Initial weighted average maturity of term deposits

COVID-19 pandemic

COVID-19 unprecedented, invades all areas of business and social/public life



Staff and operations

- pbb fully operational across all areas – approx. 90% of staff working from home, incl. critical functions such as origination, bank operations, risk management and treasury
- Situation supported by state-of-the-art IT landscape – successful test of last year’s IT infrastructure investments
- Additional Corona prevention measures implemented at early stage (social distancing, hygiene measures, meeting and travel policy)

Risk focus

- Pandemic Crisis Management Team implemented, meeting several times a week
- Risk profile and requirements for New Business further tightened beyond already conservative standards
- Implementation of Corona Task Force, consisting of 8 working groups (incl. CRM, Origination/Underwriting, Property Analysis and Valuation, Loan Markets) and covering specially affected clients/assets

Clients business and CRE markets

- pbb remains reliable financing partner – existing pipeline and pending deals being followed and executed where possible and in line with pbb’s risk focus
- However, since onset of lock-down significantly smaller number of new transactions as investors hold back
- Different CRE areas are very likely to be affected by declining rental income (NOI) to varying degrees; hotel and retail will be more affected than office and residential while logistics rents may even benefit – full year picture will depend on swiftness of recovery (V-shape vs. U-shape scenarios)
- As of now, property prices still largely intact; no significant valuation movements so far, visible adjustments expected H2/20
- Client relationships and preparedness to extend loans are in focus and come before pricing
- Even more than before: focus on high quality clients, 1A properties in 1A locations at improving margins for Low Leverage Lending

Capital and liquidity

- Solid regulatory buffers (CET1 buffer to regular SREP currently at 6.8% - 16.3% vs. SREP 9.5% plus countercyclical buffer 0.45%)
 - determine pbb’s capacity to keep providing clients and thus overall economy with credit
 - buffer for P&L risk
 - provide sufficient headroom for potential RWA-shifts going forward
- Liquidity well provided for through 2020 due to combination of reduced new business and significant pre-funding – liquidity reserve sufficient to cover even internal stress test well beyond 6 months

COVID-19 pandemic

COVID-19 unprecedented, invades all areas of business and social/public life

Accounting and regulatory framework

- EBA/ECB, IDW, IASB statements aim to avoid cyclical overreaction
- pbb uses longer term calibration for property price assumptions for 2020, but has so far abstained from using any other alleviations (e.g. blocking stage migration, top side adjustments and others)

Economic assumptions

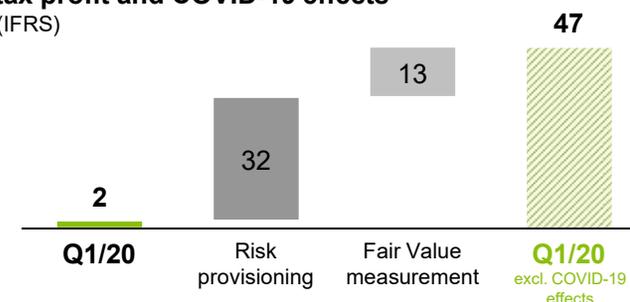
- Present calibration of risk costs (stage 1 and 2) based on own estimates, taking into account different multi-year scenarios on economic and property market value developments
- Economic assumptions very much based on forecast of German Sachverständigenrat (Council of Experts) assuming V-shape, recovery beginning Q3 with rebounding markets in 2021
- Property market values expected to decline significantly in pbb's portfolio end of 2020 with avg. discount of ~20% in pbb's adverse scenario for 2020 and further decline in some property classes in 2021

COVID-19 impact on P&L in Q1/20

- COVID-19 pandemic impact on pbb result amounts to € 45 mn – excl. these effects, PBT would have been stable y-o-y
 - € -13 mn credit spread driven valuation effects in FVtPL (ValuePortfolio, mainly German Federal States)
 - € -32 mn (12 bp) model based risk provisions (stage 1 and 2), which is 65% of 2019 LLPs
- More or less no impact on CET1 ratio – only € 8 mn valuation effect in FVtOCI

Pre-tax profit and COVID-19 effects

€ mn (IFRS)

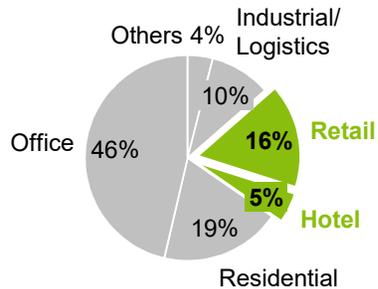


Markets

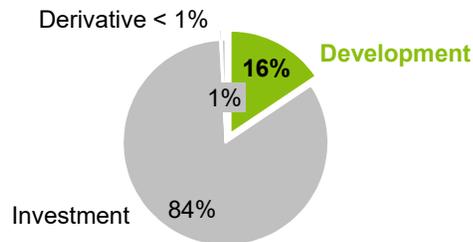
Sub-segments in special focus

REF portfolio: Property types

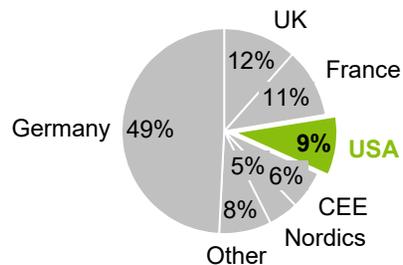
31/03/2020: € 29.4 bn (EaD, Basel III)



REF portfolio: Loan types



REF portfolio: Countries



pbb

Hotel

- Selective approach – focus on business hotels
- Portfolio volume of € 1.4 bn
- Avg. LTV of 53%² / avg. ISC >300%
- Key regions Germany (48%) and UK (40%)

Retail

- Selective approach – long identified structural weakness of Shopping Centres and Retail Parks led to foresighted reduction of sub-segment by >30% since 12/16
- Portfolio volume of € 4.8 bn
- Avg. LTV of 52%² / avg. ISC >300%
- Diversified portfolio with focus on Germany (29%), UK (24%) and CEE (18%)

Development

- Very selective approach, e.g. pre-letting/pre-sales with long stop dates in lease and sales contracts which provide for comfortable buffers in terms of delays in construction
- Portfolio volume € 4.6 bn
- Focus on Office (53%) and Residential (23%) mainly in Germany (79%) and France (12%)

USA

- Relatively new market for pbb – starting H2/16
- Focus on Office (69%) and Residential (22%) properties in NY, Boston, Washington, Chicago, Seattle, San Francisco and Los Angeles
- Only investment loans, no developments
- Portfolio volume of € 2.7 bn
- Avg. LTV of 56%² / avg. ISC >200%

Expectation of Market development¹

- Complete standstill of tourist and business activities since mid Q1/20; expected recovery effects in H2/20 only on low levels due to current restrictions for travel and large events (e.g. Oktoberfest)
- Recovery to previous year's level not expected prior to 2022
- Market values and lease/rentals slightly lower

- Declining consumer purchasing power leads to temporary reduction or partial loss of rents and allocable costs
- Mega trends (i.e. e-commerce) see acceleration
 - Increased pressure on shopping centres (decline in rents, shorter terms, etc.)
 - Largely stable development expected for discounters and retail parks with strong local demand
 - High street properties (prime locations in A-cities) expected to see moderate declines in rents and slight rise in yields
 - Downward trend in secondary locations and smaller cities expected to intensify

- Construction risk varies between countries - in Germany, construction works mostly uninterrupted but health regulations and potential shortages in material may result in delays in construction process
- Take-up risk (rent / sale) post completion; uncertainty whether sales and rental agreements/negotiations could be suspended or renegotiated at short notice

- Sharp rise in unemployment expected to lead to increasing loss of rental income and decline in prices for residential properties
- Decline in demand for commercial real estate investment expected
- In general, US market expected to remain attractive for domestic and foreign investors due to the high liquidity and educated workforce

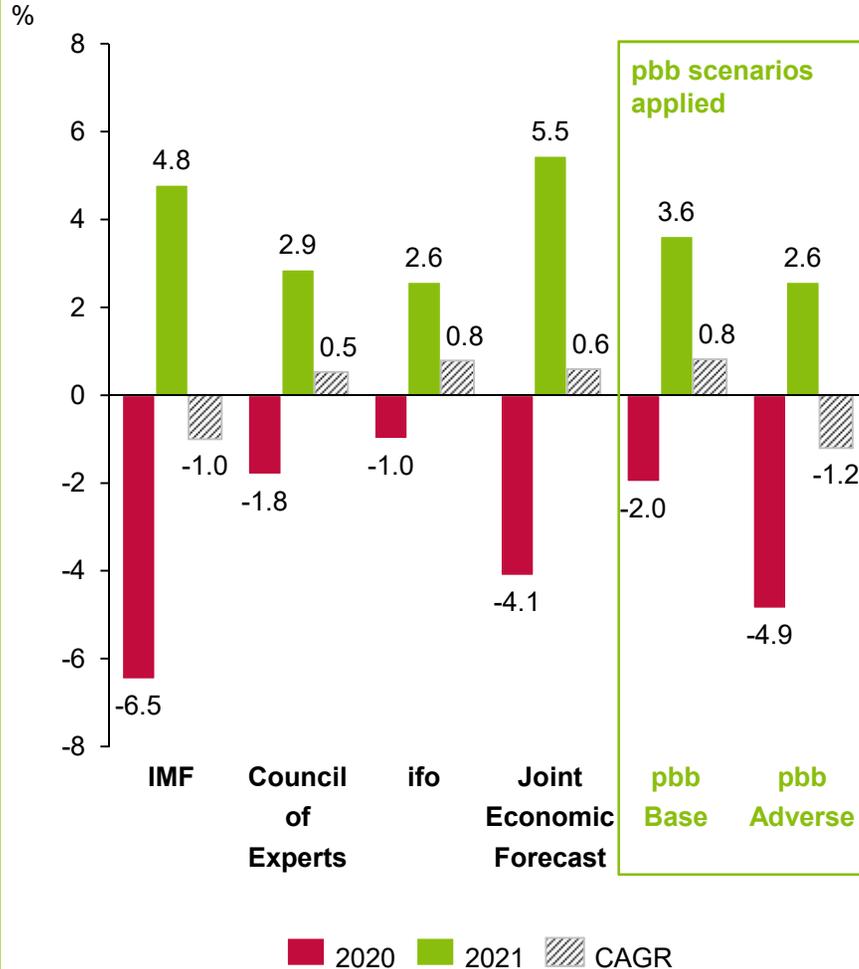
¹ Source: pbb property market analysis

² Based on performing investment loans only, values not reflecting corona effects

Markets

Economic researchers suggest V-shape development of GDPs with strong recovery starting already in H2/20 – IMF forecasts strongest dip but also strongest recovery

GDP forecasts – pbb portfolio weighted



Q2/20:

- Peak of infections in April/May and gradual exit from lockdown begins
- Following a record GDP decline in the Euro area by 3.8% in Q1 (vs. Q4/19), low point of the cycle with a massive economic contraction expected in Q2
- Estimated one third of all private sector employees across Europe are working on government-supported “short-term” employment

H2/20:

- V-shaped development of GDP growth in Europe with strong recovery starting already in H2/20 as lockdown restrictions are gradually lifted across Europe, firms reopen and employees return to work
- This assumes that there is no second wave of infections requiring a fresh round of containment measures and that fiscal support (credit guarantees and short-term work) prevents a spike in corporate defaults and unemployment
- Unprecedented fiscal support leads to large budget deficits and significantly higher public debt ratios; support by the ECB’s bond buying programmes keeps funding costs low

2021

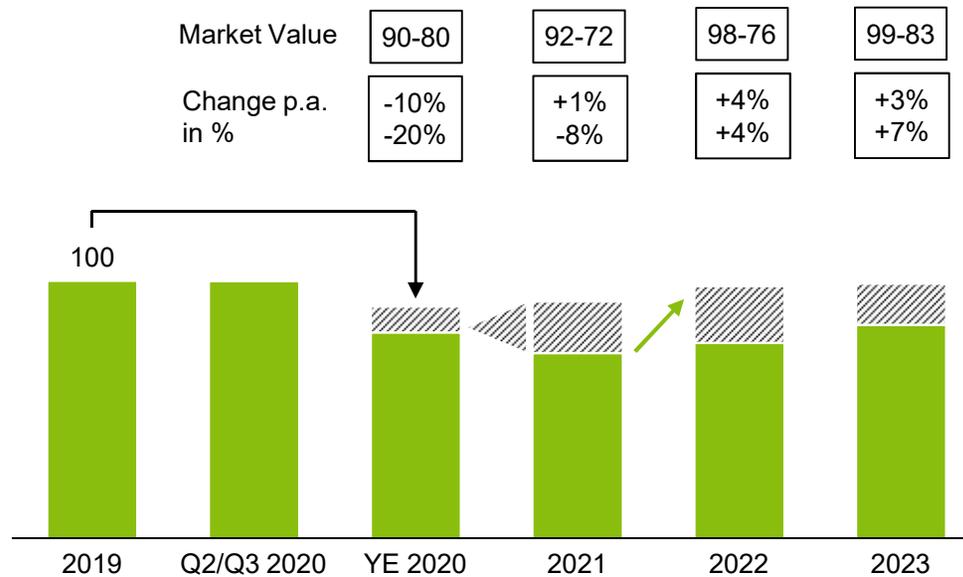
- Economic growth continues to recover strongly in Europe, led by consumption and business investment.; the labour market improves although the unemployment rate will be above its pre-corona-level
- Budget deficits begin to narrow but public finances remain in worse shape than before the crisis; ECB monetary policy remains easy, but gradual phasing out of the emergency bond buying programme.

Source: pbb / Broker Research – pbb portfolio weighted, Bloomberg

Markets

Property market values expected to decline significantly in pbb's portfolio end of 2020 – similar patterns with different pace of recovery until 2023

Development of market values – pbb estimates



Ranges due to scenarios (base/adverse), regions and property types

Q2/Q3 2020

- Only small realised changes expected due to low transaction volumes

YE 2020

- More significant changes expected to become visible by end of 2020 inter alia depending on further developments of COVID-19 pandemic and effectiveness of state aid measures

2021

- Spread in “Base” scenario is derived from “V-shape” assumption and increase in 2nd year
- “Adverse” scenario reflects more “U-type” shift with spread in value development from -10% to -35%

Source: pbb, Property Market Analysis LLP (PMA)

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