Media Release

pbb's stable operating profit in the first half of 2020 supports higher risk provisioning

- Net interest and commission income rises slightly in Q2 to €118 million - half-year figure of €231 million on previous year's level
- Risk provisioning for the first half of 2020 raised to a total of €70 million, following weaker macroeconomic forecasts
- Six-month new business at a good level of €2.8 billion – gross margin in Real Estate Finance rises to over 175 bp
- CEO Andreas Arndt: Solid operating results expected for the full year 2020, materially dependent upon required risk provisioning
- pbb adheres to the ECB's renewed, sector-wide recommendation to suspend dividend payments until January 2021

Munich, 12 August 2020 – pbb Deutsche Pfandbriefbank slightly increased income from lending business during the second quarter of 2020, demonstrating continued operating stability during the current financial year. Net interest and commission income for the second quarter rose slightly to €118 million; the six-month figure of €231 million reached the previous year's level (Q2 2019: €115 million; H1 2019: €232 million). pbb used large portions of results to shield against risks, recognising an additional €59 million in model-based general loan loss provisions (stage 1 and stage 2 impairments under IFRS 9) for the first half of the year. An additional €12 million in impairments was recognised for potential defaults of individual exposures (stage 3 impairments). Model-based provisions resulted from a significant further weakening of assessments regarding the macroeconomic – and in some cases, the sector-specific – environment during the course of the second quarter. Net income from fair value measurement normalised in the second quarter; at €-16 million, the figure for the first half of the year declined year-on-year (H1 2019: €-7 million). At €48 million (Q1) and €49 million (Q2), respectively, general and administrative expenses were in line with the previous year's periods (Q1 2019: €46 million; Q2 2019: €47 million). Pre-tax profit for the first half of the year totalled €31 million (H1 2019: €117 million – consolidated figures in accordance with IFRS, reviewed by external auditors); excluding the items of net income from risk provisioning and net income from fair value measurement, pre-tax profit for the first half of the year would have amounted to €117 million.

pbb withdrew its **guidance** for the full year 2020 on 4 May 2020 – in particular, because the development of net income from risk provisioning and net income from fair value measurement could not be reliably forecast. In view of the further significant downward revision of the macroeconomic assumptions in the second quarter, the Bank maintains its conservative assessment. However, following this recalibration of macroeconomic forecasts and risk provisions, pbb does not expect any significant further additions to model-based general loan loss provisions for the second half of the year - provided that the economic environment and sector-specific forecasts do not further materially deteriorate. However, pbb remains cautious with regard to possible provisions for defaults on individual loans (level 3) - although no concrete measures are currently in sight. pbb expects net interest income to increase in the second half of 2020, compared to the first six months. A variety of factors are expected to have a positive impact:

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a slight increase in the real estate financing portfolio - not least based on higher new business volumes in the second half of 2020 - a stabilisation of the trend towards higher new business margins, lower funding expenses as well as additional income generated from the ECB's TLTRO facility. General and administrative expenses for the full year 2020 are envisaged to be down slightly year-on-year.

Whilst in the first quarter of 2020, the COVID-19 pandemic had no material impact on pbb's new business volumes, this changed in the second quarter when **new business** was impacted by the economic effects of the pandemic. Accordingly, new commercial real estate finance volume totalled €2.7 billion in the first half of the year (H1 2019: €4.4 billion, in each case including extensions beyond one year). However, pbb was able to achieve higher margins: average gross margins on new business continued to rise in the second quarter, to above 185 basis points (bp). This led to a marked increase for the first half of the year, to above 175 bp (H1 2019: > 140 bp). Moreover, prepayments in the current financial year fell short of the levels seen in the same period of the previous year: hence, the lending portfolio in commercial real estate finance remained largely stable during the second quarter, at €26.7 billion (03/2020: €26.8 billion).

CEO **Andreas Arndt** commented: "Once again, the first half of 2020 was characterised by a healthy performance in our income and expense items. Good operating results have facilitated another increase in the risk shield for our portfolio in the second quarter, responding to the external shock caused by the impact of the COVID-19 pandemic. We anticipate solid results for 2020 as a whole – however, the actual figure will materially depend upon required risk provisioning, especially for potential defaults of individual exposures."

Dividends and dividend policy

Adhering to the ECB's renewed recommendation issued on 28 July, the Bank's Management Board and Supervisory Board resolved to suspend dividend distributions until January 2021. pbb affirms its dividend policy, as outlined in March 2020. Given the ECB's indication that it will review its position on dividend payments during the fourth quarter of 2020, pbb will comment on the possible resumption of the Bank's dividend distribution without undue delay – at the latest upon publication of preliminary results for the 2020 financial year, scheduled for March 2021.

DEUTSCHE PFANDBRIEFBANK

FACTS AND FIGURES – FIRST HALF OF 2020
(consolidated figures in accordance with IFRS)

1. New business and portfolio

The changed economic situation brought about by the COVID-19 pandemic led to an overall decline in market transactions during the second quarter of 2020. At the same time, this prompted pbb to adopt an even more selective stance regarding **new business**. After a first quarter in which new business volume reached a level of €1.7 billion, pbb made loan commitments and extensions of €1.1 billion in the second quarter (including extensions beyond one year in commercial real estate finance).

Of aggregate new business volume of €2.8 billion for the first half of the year, commercial rea estate finance accounted for €2.7 billion. Margin levels on new business developed favourably: during the first half of the year, pbb generated average gross margins in excess of 175 bp in commercial real estate finance – even exceeding 185 bp in the second quarter (H1 2019: >140 bp).

Germany remained pbb's most important individual market for commercial real estate finance in the first half of 2020, accounting for 47%, followed by the US (13%). Office buildings continued to account for the majority of financed properties: in the first half of 2020, their share was 44%. During the second quarter, pbb did not make any new loan commitments for retail properties and hotels – which are especially affected by the coronavirus pandemic; new business only concerned extensions of performing exposures.

At €32.7 billion, the **financing volume in strategic portfolios** was only slightly lower than the €33.1 billion seen at the end of the first quarter of 2020. Lower prepayments and higher long-term extensions offset the decline in new commitments, due to the pandemic.

2. Funding

During the first half of 2020, pbb raised new long-term funding in the amount of €2.4 billion (H1 2019: €4.2 billion) – predominantly in the first quarter, before spreads on funding markets started to widen in the wake of the coronavirus pandemic. €1.3 billion (H1 2019: €2.4 billion) was attributable to Pfandbrief issues, with €1.1 billion (H1 2019: €1.8 billion) in unsecured issues. The bulk of issues was on private placements, especially in the second quarter. In line with the recent past, pbb focused on senior preferred bonds in unsecured issues. pbb also used foreign-currency placements in both instruments, in line with its lending business.

Furthermore, pbb participated in the ECB's TLTRO III programme with a volume of €7.5 billion of which €1.9 billion will be used to repay TLTRO II. As with the TLTRO II programme, the Bank is thus using the ECB's targeted longer-term refinancing operations – which are designed to facilitate access for businesses and private households to bank loans in the current environment of economic distortions and elevated uncertainty – to make a contribution to the real estate sector.

3. Regulatory indicators

Risk-weighted assets of €17.4 billion at the end of the second quarter were slightly lower than at the end of 2019 (31 Dec 2019: €17.7 billion). Common equity tier 1 capital stood at €2.7 billion at the end of H1 2020 thereby matching year end 2019 levels after including undistributed net retained profit for 2019 (Bilanzgewinn in accordance with the German Commercial Code) and deducting the coupon payment for subordinated capital (AT1) among others. Own funds remained constant, at €3.7 billion (rounded).

- The **CET1 ratio** increased to 15.8% (31 Dec 2019: 15.2%), and the **tier 1 ratio** to 17.5% (31 Dec 2019: 16.9%.
- The **own funds ratio** improved to 21.1% (31 Dec 2019: 20.4%).
- The **Leverage Ratio** stood at 5.1% (31 Dec 2019: 5.4%), reflecting the higher level of total assets, due to TLTRO III participation.

4. Income statement

At €228 million, net interest income was in line with the previous year (H1 2019: €229 million). The slightly lower portfolio of interest-bearing financings in REF (average of €26.9 billion; H1 2019: €27.4 billion) burdened net interest income, as did the decline in the non-strategic Value Portfolio, in line with the Bank's strategy. On the other hand, net interest income was impacted especially by lower funding expenses due to maturing bearer bonds and participation in the Bundesbank's US dollar tenders at better terms, thereby replacing more expensive foreign currency funding. As in the same period of the previous year, pbb profited from floors in client business, given the negative interest rate environment. However, the contribution from the investment of the equity position continued to fall due to the low interest rate environment.

Net commission income includes fees that were recognised directly through profit or loss. At €3 million, net commission income in the first half of 2020 reached the previous year's level (H1 2019: €3 million).

Net income from fair value measurement (€-16 million; H1 2019: € -7 million) was negatively influenced by the changed situation as a result of the COVID-19 pandemic. Specifically, widening credit spreads for non-derivative financings, which must be reported at fair value through profit and loss, created an impact of €-11 million, of which the greatest effect of €-7 million was attributable to risk exposures to German Federal states. Their fair values declined significantly in the first months of 2020 before partially recovering towards the end of the reporting period. Furthermore, net income from fair value measurement was burdened by pull-to-par effects.

As a consequence of the changed economic situation, there was not only a marked decline (especially from March 2020 onwards) in commercial real estate finance transactions on the market – the volume of prepayments driven by interest rate terms was also lower. The total decline in the volume of prepayments also led to a lower volume of prepayment fees received. Due to higher earnings from other disposals of financial instruments, **net income from realisations** nonetheless reached €16 million, which compared with the same period of the previous year (H1 2019: €16 million).

Changes in the value of derivative transactions and hedged items in relation to the hedged interest rate risk offset each other almost entirely in the first half of the year. As in the prior-year period, net income from hedge accounting was almost balanced at €-2 million (H1 2019 €-1 million).

Within **net other operating income** (€4 million; H1 2019: €-2 million), releases of provisions for legal and tax-related matters exceeded additions.

Risk provisioning for financial instruments is based on probability-weighted estimates of expected loan losses. While consistently applying the accounting methods, pbb adjusted the estimations' underlying parameters, such as expected gross domestic product, and the probability weighting of the scenarios, to the current new economic situation. For example, in the most likely scenario, pbb assumes a 7.0% decline in German gross domestic product for 2020, whereas in the financial statements 2019 it predicted a 1.1% growth rate; the forecast in the first quarter was for -1.9%. The property values were forecast on the basis of a more medium-term development.

Net income from risk provisioning totalled €-70 million during the first half of the year (H1 2019: € nil), including a €1 million recoveries on written-off financial assets (H1 2019: € nil). With net additions of €59 million (H1 2019: net release of €4 million), the majority of risk provisions recognised was due to financings without indication of impaired credit quality (as defined in IFRS 9) – i.e. financial instruments with stage 1 or stage 2 impairments. This cosniders the effect from the reclassification of financings with a gross carrying amount of €7.0 billion from stage 1 to stage 2 impairments. In accordance with the relief rules implemented by the European Banking Authority (EBA) and the Institute of Public Auditors in Germany (IDW), rating migration would not have been mandatory because the changes were triggered by the current recession caused by COVID-19.There is no evidence suggesting that the issuers or borrowers of the financings in questions are in significant financial difficulties.

Furthermore, additions to risk provisions for financings with indicators for an impairment of an exposure's credit rating (impairment stage 3) were necessary (€12 million net; H1 2019: net additions of €4 million). These increases were largely attributable to a loan for a shopping centre in the United Kingdom adding to previous provisions. Overall, this results in a coverage for real estate financings of 65 bp, defined as the ratio of impairments to gross carrying amounts.

General and administrative expenses of €97 million for the first half of the year were slightly above the same period of the previous year (€93 million). This was attributable to higher personnel expenses resulting from the increase in the average number of employees, and to higher non-personnel expenses due to regulatory projects.

Expenses for bank levies and similar dues (€25 million; H1 2019: €22 million) mainly comprised expenses for the bank levy to be recorded already for the full-year 2020 in compliance with IFRIC 21, taking into account pledged collateral amounting to 15% (€23 million; H1 2019: €20 million). The year-on-year increase in expenses for the bank levy resulted from a significant increase in the fund's target volume at EU level. Furthermore, this line item comprised expenses of €2 million (H1 2019: €2 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 (€-10 million; H1 2019: €-8 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The year-on-year increase reflected amortisation of the right of use (capitalised in mid-2019) for the building in Garching. Material impairments on non-financial instruments were not required.

There were no material **additions to, or reversals of, restructuring provisions** during the first half of 2020. Net income from restructuring for the same period of the previous related to income from the reversal of provisions year related to human resources.

Income taxes in the first half-year were due exclusively to current taxes. This compares with the same period of the previous year, where income taxes were due in equal measures to current taxes and the deferred tax expense. Extraordinary write-downs on deferred tax items were not necessary.

Profit after taxes for this first half of the year amounted to €23 million (H1 2019: €99 million), of which €14 million (H1 2019: €90 million) was attributable to ordinary shareholders and €9 million (H1 2019: €9 million) to AT1 investors on a pro-rata basis (based on the assumption of a full distribution of the discretionary AT1 coupon).

Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS; € million)	**Q2 2019**	**H1 2019**	**2019**	**Q1 2020**	**Q2 2020**	**H1 2020**
Net interest income	113	229	458	111	117	228
Net fee and commission income	2	3	6	2	1	3
Net income from fair value measurement	-5	-7	-7	-17	1	-16
Net income from realisations	10	16	48	14	2	16
Net income from hedge accounting	-	-1	-2	-1	-1	-2
Net other operating income	-1	-2	3	1	3	4
Operating income	**119**	**238**	**506**	**110**	**123**	**233**
Net income from risk provisioning	1	-	-49	-34	-36	-70
General and administrative expenses	-47	-93	-202	-48	-49	-97
Expenses for bank levies and similar dues	-1	-22	-24	-21	-4	-25
Net income from write-downs and write-ups on non-financial assets	-4	-8	-18	-5	-5	-10
Net income from restructuring	1	2	3	-	-	-
Profit before tax	**69**	**117**	**216**	**2**	**29**	**31**
Income taxes	-10	-18	-37	-	-8	-8
Net income after tax	**59**	**99**	**179**	**2**	**21**	**23**

Key ratios (%)	**Q2 2019**	**H1 2019**	**2019**	**Q1 2020**	**Q2 2020**	**H1 2020**
Cost/income ratio	42.9	42.4	43.5	48.2	43.9	45.9
Return on equity before taxes	9.0	7.6	6.9	-0.3	3.4	1.6
Return on equity after taxes	7.6	6.3	5.7	-0.3	2.3	1.0

Statement of financial position data (IFRS, € billion)	**06/2019**	**06/2019**	**12/2019**	**03/2020**	**06/2020**	**06/2020**
Total assets	60.1	60.1	56.8	56.6	60.7	60.7
Equity	3.2	3.2	3.2	3.2	3.2	3.2
Financing volume	46.4	46.4	45.5	45.0	44.5	44.5

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.

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